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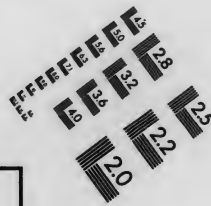
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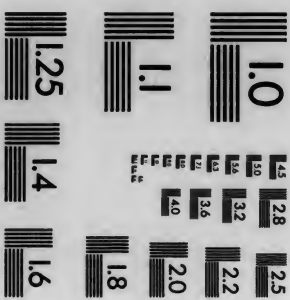


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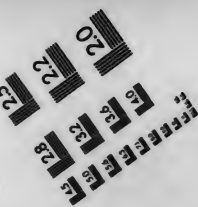
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Volume 1

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School of Business

BUSINESS LAW

A Working Manual of Every-day Law

By

THOMAS CONYNGTON

Of the New York Bar; Author of "Corporate Organization
and Management," "The Modern Corporation," etc.

VOLUME I



SECOND EDITION

NEW YORK
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Business

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V. I.

July 15 1920

PREFACE

Law and order are the necessary foundations for civilized life. A pastoral people with few possessions needs few and simple laws. A populous, modern state with complex social, industrial, and commercial relations requires intricate and far-reaching regulations. In this country the latter condition prevails, and our present legal system has not kept pace with our perhaps too rapid progress in other ways.

Our system of laws is an inheritance from our Anglo-Saxon ancestors, supplemented by written constitutions and multitudinous legislative enactments. Much of our law is judge-made. Like our forebears, we revere precedents and decisions and have more of this kind of law than we know how to use. We have our federal courts and forty-eight separate state systems, all grinding out innumerable volumes of reports. In consequence, this source of law has become cumbersome and somewhat unmanageable. Beyond this we are subject to the Constitution of the United States with its eighteen amendments, as well as the constitutions of our individual states; to the enactments of Congress and to those of our state legislatures; to the ordinances of boards of aldermen; to the regulations of boards of health and education; and to the orders of many other boards, bureaus, commissions, and officials. With the multiplicity of regulation that all this entails, it requires no small amount of care and study to avoid unwitting entanglement in the far-extended meshes of the law.

Yet from this unwieldy mass of law may be elicited certain guiding principles that everyone should know—general rules that will guide us safely past most of the difficult places.

Knowing these, it is possible for a man so to shape his business course and his relations with his fellows as to have little to do with courts or lawyers. Courts and lawyers are necessary institutions—so are doctors and hospitals—but all of us prefer to avoid both so far as possible and so long as possible.

It is the admirable theory of the law to secure right and justice to all men. The practical application of the law through the courts, however, does not always attain these ends. Some reasons for this are set forth in the following pages. Also suggestions are given as to how one may shape his conduct and manage his affairs in order to avoid the more serious legal difficulties. The man or woman who owns property, who does business and engages in affairs, should know the principles upon which our law is based, should know how to apply these principles to the more usual happenings, and should know when and how to employ "counsel learned in the law." The advice here given is, as near as may be, such as would be given by a conscientious lawyer who desired to keep his clients out of the courts, rather than to win cases. All men should know some law, and it is devoutly to be hoped that the day will come when even those who write romances and photo-plays will know enough law to avoid the preposterous legal situations that cause so much trouble to their heroes and heroines.

To better adapt the book to the needs of those intending to become professional accountants, the C.P.A. examinations of the various states for the past five years have been examined and, where necessary, the text has been expanded to cover all the more important questions. Many of the questions given in these examinations refer purely to local statutes, and answers must be found in the laws of the state in which the examination is held. In such cases the fact has been indicated. Other questions, outside the scope of this work, are apparently brought in by the examiners for the purpose of keeping quali-

fied students from receiving the C.P.A. degree. This seems a hard thing to say but *The Journal of Accountancy* for October, 1919, expresses editorially the same opinion:

Apparently some state boards in the past have been chiefly concerned with an effort to convince the public of their innate cleverness. They have presented questions which it would be ridiculous to expect a candidate to answer without reference to authorities, and as a result they have excluded many men fully qualified to practice as public accountants. Out of this condition has grown the quite frequent allegation that accountants are trying to build up a close corporation by preventing newcomers.

To assist students of business law, questions have been appended to each chapter. Some of these have been taken from C.P.A. examinations, some are intended to provoke inquiry rather than direct answers, and others are the usual type of review questions.

The author desires to acknowledge his indebtedness to Elizabeth A. Smart of the New York Bar for her valued collaboration on the first edition of this work; to W. J. Grange, of the New York Bar, for careful reading and helpful comment; to P. W. Pinkerton, of Indianapolis, for his many excellent suggestions and improvements in the text; to James H. Wilhoit, of the New York Bar, for assistance in preparing the chapter on bills of exchange; and to Katharine S. Keane, for careful and intelligent research in connection with the preparation of this edition and for good work in the compilation of the index.

The author desires further to extend his thanks and testify his appreciation of all those interested readers throughout the country who by their questions and comments on the original text have enabled him to make the present edition more accurate and comprehensive than would otherwise have

been possible. He bespeaks for the present volumes a continuance of their kindly interest.

Blackstone has said in his famous Commentaries that "the science of the law should in some manner be the study of every free citizen." If this work can make plain to its readers some of the practical features of the law under which we live, so that they may appreciate its virtues and know its faults, and from that knowledge may, by their influence and votes, strive to simplify its procedure and remedy its deficiencies, the book will have served its end.

THOMAS CONYNGTON

New York City,
March 1, 1920.

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BUSINESS LAW

PART I

THE LAW OF THE LAND

CHAPTER I

EVOLUTION OF LAW

§ 1. Definition

The English word "law" has a variety of meanings. We talk loosely of the law of gravitation, civil law, common law, written law, ecclesiastical law, the laws of health, the laws of God, etc., etc. For the sake of clearness it is necessary in this book to limit the word to those rules of action and conduct which regulate our relations with our fellow men.

The legal definition of law is "a rule of action prescribed by the supreme authority," and to that is usually added, "commanding that which is right and prohibiting that which is wrong." This last part of the definition must always be qualified by the explanation that the words "right" and "wrong" in this connection are to be construed as *legally right* and *legally wrong*. At times what is legally right may be morally wrong, and at other times what is legally wrong may be morally right.

§ 2. The Origin of Law

It is impossible to imagine any state of society without some law, that is, some "rule of action." A solitary man in an uninhabited country might be said to be without law, but as soon as one other human being came into any relation with him, certain rules and customs would grow up to regulate their mutual rights, and these would soon have the form and the force of law. Children in their play have rules and customs to govern their actions. Among the students of every college

there is a curiously complex system of rules and customs, rigidly enforced, which defines the rights and the duties of the different classmen and their relations to others in the college.

A simple people living in a sparsely settled country could get along with a minimum of law, but a highly organized people living in a densely populated country require many laws. Strangers used to comment on the number of "Es ist verboten" signs in Germany, but a complicated system of law is the necessary consequence of a dense population and a highly organized social structure.

§ 3. Law and Liberty

Laws are a necessary evil incident to social existence. The lone man in a wilderness has complete liberty. As others join him, laws and established rules become necessary. Every law and every rule subtracts from the individual's previous liberty of action and circumscribes his freedom. On the other hand, the advantages of social life and achievement are great; therefore the majority of mankind are willing to pay the price, which is submission to law. The trouble comes from the fractious few who, while they enjoy the advantages of living in a civilized community, are not willing to pay the price, and who seek to evade the laws which are obeyed by others and which alone make the civilized community possible.

§ 4. Sources of Law

The beginnings of our legal system go back to the early history of our country when the colonists from England first established courts, and decided the cases that came up according to the principles of the law of England as it existed at that time—that is, they utilized as much as was applicable to conditions prevailing in the colonies. This law was principally the famous "common law" of England that had grown up through centuries. Its provisions were of great advantage

to the colonists when the rights conferred by common law were infringed by the arbitrary acts of the home government.

They were able to show that the rights they claimed were conferred by the common law, and that the king and the parliament were seeking to deprive them of the common birthright of Englishmen.¹

Colonial Charters. Most of the colonies had been established under charters—instruments which served as our written constitutions do now. Connecticut and Rhode Island continued to use colonial charters as substitutes for constitutions even after the Revolution. To the common law were added the enactments of the colonial legislatures that had been established in each colony. The power of these colonial legislatures was limited by the provisions of the charter under which the particular colony existed.

Effect of the Articles of Confederation. At the time of the Revolution the colonies adopted the Articles of Confederation, which left each separate colony to establish such government as it saw fit. The authority of these governments was expressed usually in a constitution which took the place of the old charter and in legislative enactments passed to supplement the constitution and to apply general principles to particular cases.

The Federal Constitution. Later, when the Federal Constitution was adopted, its authority became supreme, and as each colony joined the new nation the local governments were shaped according to the basic principles of the Federal Constitution. The common law, the state constitutions and charters, and the enactments of state legislatures, all gave way on any point that conflicted with the Federal Constitution. This subject is treated more fully in the two succeeding chapters.

¹ Cooley's Constitutional Limitations, Chapter III.

REVIEW QUESTIONS

1. Give the legal definition of "the law."
2. What do you understand by "the supreme authority" in the definition?
3. Mention some action legally right but morally wrong.
4. How far is the law a guide to what is morally right?
5. Can you make men moral by law?
6. What is the origin of law?
7. What is the origin of the laws regulating the operation of automobiles? How far do they date back?
8. If a body of men were wrecked on an uninhabited island would they be subject to any law? What would probably happen?
9. Why are we willing to submit to law and lose our freedom to do as we choose?
10. What would be the condition of a community without any law?
11. What are the sources of the law in this country? Outline them in order of time. Outline them in order of authority.

CHAPTER II

THE WRITTEN LAW

§ 5. Definition

The technical term "written law" means law that is embodied in constitutions, acts of Congress, of state legislatures, and of other bodies with legislative authority. In many countries all the governing law is this so-called "written law." Napoleon, who had a better title to fame in the code of laws to which his name is attached than in all his conquests, called together the persons most learned in law to reduce into one orderly, compact body all the varying laws at that time prevailing in France. The "Code Napoleon" which was the result has from that time to the present day been the major law of France and is what we call "written law." No similar codification of all existing laws has ever been attempted in the United States, and our so-called "written law" is only a part of the body of law by which we are governed.

§ 6. Constitutional Government

Nevertheless in our country the written constitution is the basis of all law. This is true of the United States as a whole and also of each separate state. A written constitution is the fundamental law on which all other laws are based and to which they are all subject. A constitution has been explained as that written instrument which defines the powers of government and limits the exercise of those powers for the protection of individual rights. The power of Congress is derived from the Constitution of the United States. Each state legislature has only the power granted by the state constitution. "Con-

gress can pass no laws but such as the Constitution authorizes expressly or by clear implication."

§ 7. The United States Constitution

The Constitution of the United States is the highest authority in the United States. Next in rank come laws enacted by Congress in pursuance of the powers enumerated in the Constitution. For example, Congress has power to regulate commerce with foreign nations and among the several states, and under this authority it has passed the "Anti-Trust Law." On the other hand, the Constitution does not grant Congress any legislative power in regard to marriage and divorce, and for this reason Congress is not authorized to enact a federal law regulating divorces, however desirable such a uniform law might be. Under the present Constitution this matter is left to the discretion of the separate states, and divorce laws change as state lines are crossed.

At the time of the adoption of the Federal Constitution the representatives of the separate states were every whit as jealous of the rights of the states as we as a nation were jealous of the rights of the United States in the matter of the League of Nations. They clung to the sovereign rights of states and feared, worse than men ever feared war and pestilence, the sinking of the state in the nation. There is an extremely interesting parallelism between the arguments advanced against the adoption of the National Constitution by the states and those advanced against the adoption of the international constitution by the nation. The National Constitution as adopted was a compromise whose makers held that the powers of the United States as a nation were to be limited, so as to leave to the separate states the maximum of sovereignty. Their purpose in drafting the Constitution was to define these limits to national supremacy with exactitude and carefully to mark out the powers of Congress beyond which it could not

go. Fortunately, grants of power as expressed in the Constitution were couched in general language, and in interpreting their meaning the Supreme Court of the United States has, in many instances, placed a liberal construction upon them, so that Congress today is a far more powerful body than it otherwise would have been. For example, at the time the Constitution was adopted no one dreamed of the enormous power granted to Congress in the right "to regulate commerce between the states." The commerce between the states at the time the Constitution was adopted was of little significance and the power to regulate was of small moment. With the vast extension of our interstate commerce, however, the congressional power of regulation has grown to tremendous proportions. The recent decision of the Court in regard to the constitutionality of the Adamson railroad wage law would seem to extend this power almost without limit. The great war necessitated federal control of the railroads. Even though the roads are returned to their corporate owners, it is likely that there will be an increased supervision by the central government that will vastly and permanently expand the authority of the Federal Government.

The wonderful thing about the Constitution of the United States is that though it was devised over a century and a quarter ago, and though the changes in our country and in its modes of life, in its social relations, and in its methods of business have been tremendous, the old Constitution, with but few changes, still serves as the fundamental law of the land and chafes in but few places. Well did Bryce in his "American Commonwealth" say of it:

The Constitution of 1789 . . . after all deductions . . . ranks above every other written constitution for the intrinsic excellence of its scheme, its adaptation to the circumstances of the people, the simplicity, brevity, and precision of its language, its judicious mixture of definiteness in principle with elasticity in detail.

§ 8. Laws of Congress

The legislative power of Congress is limited to specific objects enumerated in the Constitution. Congress has the power to "regulate commerce with foreign nations and among the several states, and with the Indian tribes," but has no power to pass any laws affecting a railway or any kind of traffic which operates entirely within a single state. On the other hand, Congress is authorized to "coin money, regulate the value thereof and of foreign coin, and fix the standard of weights and measures"; this power gives us a system of coinage and of weights and measures which is uniform for the entire country. If ever we adopt the metric system it will be through the action of Congress, under this constitutional grant of power.

Whenever Congress acts under a constitutional grant of power, the states are excluded from legislation on that subject. For instance, Congress has power to pass "uniform laws on the subject of bankruptcy," and when the present bankruptcy law was passed in 1898 it at once nullified all the existing state laws on the subject of insolvency. Laws passed by Congress *in pursuance* of its constitutional powers are superior to state constitutions and state laws.

§ 9. State Constitutions

At the time of the adoption of the National Constitution, each of the thirteen original states was exercising the powers of government under some form of written constitution. These instruments remained in effect, except in those particulars which were overruled by the Constitution of the United States. The newer states have adopted constitutions, and before the states were admitted it was necessary for Congress to accept the proposed constitutions. But within the limits of each particular state the state constitution is supreme. The

state legislature cannot enact a law which goes counter to any of the provisions of the state constitution.

§ 10. Constitutional Amendments

It was intended by those who framed our system of government that amendment of the Constitution of the United States should be both difficult and slow. They did not intend that a majority of the voters should at any time amend the Constitution. They did not have such entire confidence in the wisdom of the common people as to be willing to empower a bare majority of the voters to set aside the constitutional provisions they had so carefully devised. So they provided that no amendment should be valid as a part of the Constitution unless it were first proposed by two-thirds of both Houses of Congress and afterwards ratified by three-fourths of the several states. As it was purposely made difficult to amend the United States Constitution, so most of the states have likewise made it more or less difficult to amend or to change their constitutions. In some states a convention for the special purpose of revising the constitution is called at stated periods; others leave to the legislature the calling of the conventions, while the usual plan is for the legislature to submit separate amendments to the people from time to time.

§ 11. Constitutions That Legislate

Constitutions are intended to be permanent, and therefore should lay down only broad principles. They should not be encumbered with legislation on any subject on which the policy or the best interests of the people are likely to change. The pressure for change has been quite as strong as the framers of the constitution foresaw.

At the present time many persons desiring to introduce reforms and to secure liberal legislation fret at the delays and the difficulties of overcoming constitutional impediments, and

hence advocate making our constitutions, both federal and state, easier of amendment and less restrictive in their provisions. There is such a distrust today, moreover, of the wisdom of legislatures that in many of the newer state constitutions provisions have been incorporated that should have been left for legislative action. For example, the Constitution of Oklahoma provides that eight hours shall constitute a day's work throughout the state; that railways shall not charge passengers more than two cents per mile, while the corporation commission may exempt any railway in case its earnings are so low as to justify a higher rate; that railways shall have adequate, comfortable, and clean stations, etc. By incorporating such detailed legislation in a state constitution, its function, which is to provide fundamental and basic law, is confused with that of the legislature, which is to provide laws for such specific subjects as hours of labor, rates of fare, and all sanitary details.

§ 12. Legislative Enactments

Next in dignity and authority to the state constitutions come the laws or acts of the separate state legislatures so far as they conform to the Constitution of the United States and the constitution of the particular state. These are known as statutes and are of authority in the state where they are enacted. Below them in dignity come the ordinances or laws of boards of aldermen and common councils in towns and cities. The law from all of these different sources—constitutions, laws of Congress, laws of legislatures, and ordinances of municipal governments—may be said to make up the body of what is called the "written law," in contradistinction to what we call the "unwritten law" which is discussed in the next chapter.

§ 13. Statute Law

The term "statute law" or "statutory law" is frequently used in contradistinction to the common law. In its general use it means all law expressed in constitutions, codes and enactments of the legislature, and is identical with the term "written law" as used herein. In a narrower sense it means the legislative enactments of the states or of the United States, which are published in volumes of statutes, or revised statutes, as "The Revised Statutes of the State of New York." In such a work will be found all the laws regulating the conduct and activities of the citizens and others in the state.

The common law gives way whenever it comes in conflict with the statute law. The legislature in each state has authority to supersede, extend or abrogate the common law. The common law is the old law that prevails until it is overruled by statutes of the United States or of a state legislature.

§ 14. Subsidiary Laws

In late years there has come into existence an immense additional body of written law consisting of the rules and regulations issued by boards of health, building boards, school authorities, and various bureaus and commissions. For instance, the Interstate Commerce Commission is empowered by Congress to regulate particular matters concerning the railroads. In most of the states there are railroad commissions with similar authority to regulate traffic within state boundaries. Moreover, the different transportation companies and the other corporations operating public utilities have the right to make reasonable regulations for the government of those using their facilities. Thus, in the aggregate, the "written" or "statutory" law comprises a vast number of legal and semi-legal enactments, from articles of the Constitution down to the rules of the trustees of the smallest school district.

REVIEW QUESTIONS

1. What is written law?
2. What is a constitutional government?
3. Does a constitution have to be written?
4. What is meant by a government of limited powers?
5. What is the highest source of law in the United States?
6. How have powers granted by the constitution been extended from time to time?
7. Why cannot Congress give us a system of uniform divorce laws?
8. Has Congress the right to debar from interstate commerce articles made by child labor? Give reason for your answer.
9. Why has it been made difficult to amend our constitution?
10. What is the difference between matters that should be embodied in a constitution and matters that are properly subject to legislative action?
11. Name in order of authority and dignity the sources of "written law."
12. Why has New York State a constitution, while New York City has not?
13. Name some congressional laws passed within recent years.
14. What laws are superior to a state constitution?
15. Name some laws passed by the legislature of your state within recent years.

CHAPTER III

THE UNWRITTEN LAW

§ 15. Definition

To the layman, perhaps, the term "unwritten law" is somewhat misleading. It is called unwritten law because there was a time when it was not written. As soon as men commenced to live in communities they found it necessary to conduct their intercourse and dealings according to rules, and these customs or uniform methods of doing things are supposed to be the foundation of what is now called the "common" or "unwritten law." For instance, when vehicles meet it is the custom in this country to turn to the right. This custom is not the enactment of any legislature, and yet it is practically a law, for if anyone driving a vehicle failed to observe it he would be liable for any damage that resulted. It might be possible to find cases where this particular matter had come up and received the ratification of a court decision, but in such cases the court did not make either the custom or the law; it merely recognized that the custom was general and hence had the force of law. That is, the court recognizes the custom as law, because men have acted in one way until that way has become a rule of action; the court is bound by it although there is no written record. When so recognized by a court, it would be placed upon the court records and so would actually be *written down*, yet it is still called "unwritten law" because it is based on the earlier unwritten custom instead of upon legislative enactment. Lawyers distinguish these classes by the Latin terms *lex scripta*—written law—and *lex non scripta*—unwritten law.

§ 16. The Doctrine of Precedents

The courts do more than record customs; they create law by decisions that then become precedents. In primitive days when men had differences of opinion they would get someone older and supposedly wiser than the rest, to arbitrate or decide the matter. When a given matter had once been decided in a certain way, the inhabitants of the country would shape their conduct according to this decision; it would be a precedent for future action and future decisions and in this way would become part of the unwritten law. Gradually, as civilization increased and these precedents accumulated, a "body" of unwritten law grew up, founded partly on customs and partly on precedents established by the courts.

Moreover, if a question came before one of these early courts and no custom could be found on which to base the decision and no precedent to guide it, the judge would decide according to his ideas of right and justice and thus would add a new item to the sum of this unwritten law, which in turn would become a precedent for later cases like it. England has been eulogized by its poet laureate as:

A land of settled government,
A land of old and fair renown,
Where Freedom broadens slowly down,
From precedent to precedent.

§ 17. Court Reports

In the old days when writing was a rare accomplishment, individual lawyers used to make their own notes of cases in what were called "Common-Place Books," which they would use as authorities when similar cases were tried. In this way there grew up the custom of making court reports. Today the decisions of the courts are most carefully recorded and published, and the court reports are the greatest repositories of this so-called "unwritten law."

§ 18. The Volumes of Reports

The difficulty in our country at the present time is that we have over forty-eight different and independent systems of courts, all grinding out decisions, which are recorded and published in long rows of volumes. In the first place the number of reports has become so great that it is impossible for even the most industrious lawyer to keep up with them. The existing law reports of this country fill thousands of volumes, and every year they are growing in number and complexity. In the second place, there are forty-eight separate jurisdictions, the decisions do not always harmonize, and then occurs a conflict of laws.

Lawyers depend on large law libraries to which they have access, kept up usually on a co-operative basis. Meanwhile, they subscribe for volumes of digests and use encyclopedias of law to guide them in their searches through this ever-increasing maze of judicial decisions. In each state the decisions of the highest state courts are paramount, and the lawyers in the state try to familiarize themselves with at least the trend of these decisions.

Whenever political, economic, and social conditions change so radically that the decisions of the higher courts become unjust or restrict legitimate activity too much, the state legislature interferes and enacts laws that supersede the judicial decisions. In other words, the written law prescribed by the legislature overrules the unwritten law that comes from the decisions of the court.

§ 19. Citations

When a lawyer wishes to use a case in argument, he cites it by naming the parties, the number and name of the report, and the page on which the case is found. Only by practice can a person know, when a case reference is given, what court

decision the author cites. It is no small part of a lawyer's training to know where to find the decision he wants. This matter of finding cited cases is explained in Appendix B.

§ 20. The Common Law

The unwritten law was also called, as has been said, the "common law," and old-school lawyers were fond of extolling it as the perfection of human wisdom. When this country broke away from England at the time of the Revolution we retained the English common law, and it became the foundation of the general system of law prevailing throughout most of this country. In Louisiana, however, and to a certain extent in Texas and California, the so-called Roman or "civil law" was introduced and became largely the foundation for the systems of law in those states. This system based on the old Roman law, prevails in Italy, France, and other Latin countries in Europe and is utilized by the Teutonic peoples as well. The English law is indebted to the Roman system more than English common law advocates are willing to admit, and it might have been better had more been borrowed.

The original English common law was a harsh and barbarous code, having little or no consideration for the rights of women and children and making man the tyrant of the family. Any infractions of its provisions were punished with drastic penalties. The smallest theft by man, woman, or child, was punished by death. At the present time most of the harsher features of the common law have been eliminated. Juries refused to convict prisoners on account of the cruel penalties, and the law has been modified by numberless legislative enactments and expanded by judicial construction, to fit a more civilized and cultivated society than that in which it originated.

It is evident that the term "unwritten law" covers a wider field than "common law." Therefore it is used in this work

to designate the law that is contained in the reports of the courts.

§ 21. Law-Merchant and Commercial Law

The law-merchant was originally a part of the general law of nations, being concerned with bills of exchange and the like, freights, average, demurrage, insurance, bottomry and other matters of the same nature pertaining to commerce.

Chancellor Kent in his commentaries says that the law-merchant "consists of certain principles of equity and usages of trade, which general convenience and a common sense of justice had established to regulate the dealings of merchants and mariners in all the commercial countries of the civilized world."

Blackstone refers to it as "The particular system of customs used only among one set of the king's subjects, called the custom of merchants, or *lex mercatoria*: which, however different from the general rules of the common law, is yet ingrafted into it, and made a part of it; being allowed, for the benefit of trade, to be of the utmost validity in all commercial transactions."

While the law-merchant had its origin in international usage, as a matter of fact it was incorporated into and made a part of the body of the common law of England and was with it transplanted to this country and made a part of our own common law so far as it was applicable to our conditions. In later years it has been largely extended and modified by statute but still remains part of our unwritten law and as such governs in the present course of trade and business.

The term law-merchant is generally applied to the old laws or customs of merchants. The corresponding modern term is commercial law, which is defined as the body of principles and rules, drawn chiefly from the customs of merchants, by which the rights and obligations arising in commercial transac-

tions are determined. It is also defined simply as the law applicable to commercial transactions.

§ 22. Unconstitutional Laws

It frequently happens that a legislative enactment designed to overrule some objectionable decision of the courts comes into conflict with a provision of the state constitution or of the United States Constitution and the courts may decide this new law to be unconstitutional. If the people in the state should still desire to maintain the legislative enactment, they would have to amend the state constitution except in states, Colorado for example, whose constitution provides for the "recall of judicial decisions" by the vote of the people. So far as the writer knows, however, this power has never been invoked, and indeed it seems a dangerous right since popular passion might easily be swayed to commit on occasion, in this way, great injustice. In case the law were in conflict with the Constitution of the United States, the people must either submit or else undertake the very arduous task of stirring up all the people in the country to amend the Federal Constitution.

A notable instance of this is the income tax law, which was passed by Congress but declared unconstitutional by the Supreme Court. Then the Constitution was amended, whereupon Congress passed the present income tax law which, with its amendments, will doubtless be a permanent feature of our system of taxation.

§ 23. The Recall of Judges

Within the last few years many persons have become impatient with the slow process of changing the Constitution. This has led them to advocate, as a short cut to securing better laws, the recall, that is, the dismissal, of any judges who decide that popular laws are unconstitutional. If this law went into

effect any judge who rendered decisions opposed by the majority of the voters could be recalled and a more subservient arbitrator elected. For several reasons such a procedure seems unwise. It would be better to facilitate the process of amending the Constitution than to seek judges who will disregard the plain letter of existing law and will support, as legal, laws that plainly are not in harmony with the provisions of the Constitution. But this is too large a subject for treatment here.

REVIEW QUESTIONS

1. Give some examples of custom-made law.
2. When a custom is recognized by a court and its decision is recorded, what is the effect?
3. What is the argument for observing precedents?
4. What is the disadvantage of our numerous volumes of reports?
5. In what cases do legislative enactments supersede court decisions?
6. Give the arguments for and against the recall of judges.
7. What is the relation between the common law and statute law?
8. Where do we get our common law?
9. What countries have laws most nearly like ours?

CHAPTER IV

LAW AND EQUITY

§ 24. Remedial Law

When anyone has suffered wrong and his legal rights have been infringed, he seeks a remedy. The law itself may be ideal, but if the machinery to enforce the rights defined by the law be defective, abstract perfection will avail but little. Therefore a study of what is called remedial law is necessary before we can tell what real help we are likely to obtain from the law. The "law's delay" is proverbial. In all matters of judicial procedure there has always been a tendency to formality and "red tape." Too often this tendency becomes so excessive that it nullifies the remedy and results in a denial of justice. The remedy may be so costly and long deferred that it were better left unsought. The man with limited means is too often, on this account, barred from seeking justice.

Suits or actions to redress wrongs or to enforce rights are classified as suits at law and suits in equity. It is not easy to explain briefly the distinction between the terms "law" and "equity" as they are used in our administration of justice. The two words are used in this connection without any reference to the ordinary meaning attached to them. A real, technical distinction exists between a case at law and a case in equity which a lawyer must thoroughly understand. Whether it would pay a business man to study out the exact and full distinction between the two is doubtful. But, as it is impossible for a lawyer to avoid using the terms in their technical sense, it is important that the layman should have a general idea of what the lawyer means, so that the plain

man may not be misled by confusing the ordinary English use of the words with the legal signification.

§ 25. Equity in the Legal Sense

In England many years ago the proceedings at law had become so cumbersome and so limited in scope that it was difficult to obtain justice in the courts of common law. King Henry VII then provided that in those cases in which the common law did not afford a remedy, relief could be obtained by applying directly to his chancellor. This official, who was also a dignitary of the church, favored the Roman or civil law and adopted a procedure founded on that law in contradistinction to the common law. Such a procedure before the chancellor was called a suit in "chancery" or "equity," as distinguished from the procedure "at common law" or simply "at law." It should be noted, however, that while at first it was simpler to bring a suit in equity than at law, this distinction soon vanished and equity proceedings became even more complex and technical than the procedure at law. The chancellor, however, gave relief in many cases for which the common law gave no remedy. The common law was adapted to a simple life and a crude social system. As the English people advanced the deficiencies of the common law were manifest and the introduction of the courts of equity was a long step in legal reform. The two distinct systems both continued; the procedure was different, the rules were different, and the relief given was different. The lawyers who practiced before the chancellor were called solicitors; the lawyers who appeared in the common law courts were counselors or barristers.

In equity the remedies are different from those provided by a suit at law. To illustrate the difference, if anyone breaks down your fences and makes a road across your property, at law you can sue only for damages; in equity you can ask an

injunction restraining the offender from further trespass, and also recover for any damage he may have done.

§ 26. Suits at Law and in Equity

The distinction between law and equity was brought to this country and as a result there are in all the states the two divisions of the work of the courts and the two methods of bringing suit. In a few states the law and the equity courts are kept entirely separate, as is the case in New Jersey; and in these states the public realizes more readily the real difference between law and equity administration. But in most states today, the actions are brought in the same courts, the only differences being in the preliminary procedure, in the remedies which the courts grant, and in the fact that in most cases at law there is a jury trial, while in equity cases a judge or judges alone hear the case.

A court of law hears both civil and criminal cases. Civil cases are the ordinary suits about contracts and property rights and are brought by private parties against other private parties. Criminal cases are suits brought by the state itself against those who are accused of having broken the law, and who are punishable by fine or imprisonment. In such a case the fine goes to the state. (See Chapter V.)

A court of equity hears only civil cases. If a person is interfering with another's rights, a court of equity will grant an injunction forbidding him to do so in the future, and will at the same time make him pay damages to the injured party for the wrong which has already been done.

§ 27. Bringing a Suit at Law

When A refuses to pay a debt that is due, or fails to do what he has contracted to do, or by his negligence or wrongdoing has caused damage to B, if B wishes to bring suit against A he employs a lawyer who prepares a written statement

setting forth his client's cause of action. This paper is called a complaint and must be served upon A. At the same time with or before the service of the complaint, B must serve a notice or summons on A requiring him to answer within a certain number of days. If A does not appear, the court will consider that A does not mean to defend and, in some instances, if the claim is definite, it will grant a judgment by default against A and in favor of B, without a trial or anything more than a sworn complaint to prove the case.

Service of a summons must be made personally upon a defendant except:

1. Where the person is an infant, it may be delivered to a parent or guardian.
2. Where the person is adjudged insane or incompetent to manage his own affairs, it may be delivered to a guardian or to the defendant.
3. Where a person, firm, or corporation is without the state, summons may be served by publication of the summons in two newspapers, most likely to be seen by the defendant, for a specified time of not less than once a week for six successive weeks. (The details given are for publication in New York. They vary in the different states.)

The party bringing the action is called the "plaintiff," or in some states the "complainant." The party against whom the action is brought is called the "defendant." If the defendant does not wish to allow judgment to go against him by default, he or his lawyer must within the time set serve an answer to the other party's complaint against him. In this paper the defendant usually brings forward any cause of action which he may have against the other party. This is called a counterclaim. The written papers by which the parties bring their cause before the court are called "pleadings." If the

defendant denies the facts alleged or sets up a counterclaim, the pleading is called an answer.

The other party then replies to the counterclaim. There may in some states be several such replies after the service of the complaint. The procedure depends on the law of the particular state where the action is being brought. Each party must serve a copy of each paper in the action on the other party or his attorney.

If what has been stated in the complaint does not make a legal cause of action, the defendant through his lawyer may object to it by filing a demurrer. A demurrer objects to the complaint on legal grounds; for example, that it is not brought in the right court, or that the facts alleged, even if true, do not constitute a cause of action.

Then the matter of the demurrer comes up before the court. It is argued by the lawyers on each side, and if the court decides that the demurrer presented by the defendant is well taken, the complaint is dismissed. The plaintiff can then usually get leave (by paying the costs up to date) to file a new complaint in which his lawyer will try to avoid the particular legal difficulty.

If the court decides, however, that the demurrer is not well taken, it is dismissed, and this leaves the defendant to answer the complaint as to the facts, that is, as to the matters which have been alleged on the part of the plaintiff and denied on the part of the defendant.

The foregoing statement of proceedings before trial presupposes very simple proceedings, but usually there are requests to amend and much incidental procedure, which tend to delay the trial of the main issue.

§ 28. Trial at Law

When the parties have finally *come to an issue*, i.e., when the plaintiff has alleged certain things and the defendant has

denied them or has interposed a defense, then the case is set down for trial, and takes its place on the court calendar. When cases that are ahead of it on the calendar have been tried, or postponed, the case is called, and the lawyers on each side are asked if they are ready. When both sides are ready, or have no excuse for longer delay, a jury is assembled and the judge proceeds with the case. In a court of law a party has a right to have a jury decide any disputed facts.

The witnesses for each side are sworn and testify, then the case is argued by counsel for each party and goes to a jury to decide or is decided by the judge, or is taken under advisement by the judge, who will give his decision after due consideration. If the case goes to a jury, the jurymen are placed in the custody of a court officer until they reach a decision or find that they cannot agree. If the judge is to decide the case and takes it under advisement, it may be days, weeks, or months before he will render his decision.

Since a jury is composed of human beings, it is likely to show certain very human characteristics in its decisions. The sympathies of the jury are usually with the under dog, whether he is plaintiff or defendant. Often the plaintiff, by the mere fact of going to court with his troubles and then by being heard *first*, has the better chance. If one party is a corporation, the jury is inclined to regard it as a soulless oppressor, and to award damages in favor of the poor workingman, widow, etc., whom the corporation is supposed to be injuring.

Very frequently clever and unscrupulous lawyers get in some touch to appeal to the sympathies of the jury, as a photograph of an injured man's wife and children, etc. These are usually ruled out by the court, but the effect on the jury has been gained just the same. It is to be remembered that if one man on the jury is stubborn, prejudiced, or dishonest, he can prevent a verdict and the whole expense and trouble of the trial has to be repeated. The law frequently breaks down in

vindicating rights because of the imperfect workings of the jury system.

Note:

1. Consider all the chances before bringing a lawsuit.

§ 29. Bringing a Suit in Equity

The outline given applies to a court of law. If the court is a court of equity jurisdiction, the procedure is essentially the same except that the first statement may be called a petition or a bill in equity. In New York complaints are also used in equity. All procedure in courts follows generally the lines laid down, with many variations as to details and incidentals.

A suit in equity can be brought only when the party cannot obtain justice at law. The other party must answer the petition or the bill. Copies of all papers must be served on the opposite party by the party making the charges.

In a suit in equity, only a judge, or several judges, hear the case. For this reason a court of equity is not so strict about keeping out evidence that does not properly have anything to do with the case, or that might prejudice a jury. The judge is supposed to know the law and to be guided only by such evidence as ought to be allowed to affect the decision of the case.

A court of equity tries to give a remedy to fit the nature of the wrong that is being done. If the wrong consists in a refusal to perform a contract, the court will, in some instances where the contract should be performed, compel the offending party to carry out his agreement. (See Chapter XII.) If the wrong alleged consists in the defendant's continuing to do anything which is injuring another, the court will issue what is called an injunction forbidding the continuance of the injurious conduct. Practically speaking, however, the courts are chary of granting an injunction where it may be avoided.

It is useless to attempt to bring an action in equity unless

the party is certain that he can prove to the court that the damages which he can obtain at law will not compensate him for his injury, and unless he is willing to do everything which the court may require from him in the interests of justice. The maxim is that he who seeks equity must do equity.

Another maxim in equity is that he who comes into a court of equity must come with clean hands, i.e., if the complainant alleges fraud, he must show that he has been scrupulously fair in all his own dealings.

If the party resorts to equity when he should have instituted an action at law, he will merely find that he is obliged to go to the added expense of bringing action at law. The practice in equity is no less complicated than that at law.

§ 30. Appeals to a Higher Court

The decision of a trial may be appealed from by the dissatisfied party. The unsuccessful litigant has to pay the damages adjudged to be due his opponent, the costs of the suit, and the fees of his own lawyer. His fighting blood is stirred by the evidence that brings to mind the original dispute and the perverseness of the opposite party, by the arguments of the counsel on each side, and by the failure of the court and jury to give them the weight he feels they have, and he feels as if he would spend all he has to vindicate himself and to punish those who have wronged him.

His lawyer feels much the same way, and, as he is paid for appealing instead of having to pay, he can better afford to indulge his feelings. Usually the first thing is to file exceptions to the alleged irregularities in the trial; that is, happenings of the following nature:

That evidence was admitted which should have been shut out.

That evidence was rejected which should have been admitted.

That questions were allowed which should have been barred.

That questions were disallowed which should have been allowed.

That the judge charged the jury in a way he should not have charged it.

That the judge refused to charge the jury as requested and as he should have charged it.

That the verdict was excessive, or inadequate, or not supported by the evidence.

Then a motion is made for a new trial and, if this is overruled, counsel announces that he will appeal. The losing party cannot commence a new action. He is barred from any such proceeding, otherwise a wealthy plaintiff could ruin his opponent by continued new actions. He can, though, in most cases appeal to a higher court.

The appeal is a costly and complicated proceeding. All of the papers and much, in some cases all, of the evidence must be printed. Then the arguments of each of the opposing counsel, ironically termed "briefs," are printed. After more delay and often much sparring of counsel over points of procedure, the case will take its place on an appeal docket and in due course will be reached by the appellate court. Next the case is heard, which means that counsel for both sides appear and argue the case on appeal. Finally the court takes it under consideration and if a new trial is granted it must be tried again in the original court. In most states there may be indefinite appeals until the case has reached the court of last resort, been decided there on the last technicality, and a rehearing has been asked for and refused. There is always delay between appeals, and it is entirely possible for a lawsuit to go on for years and become an heirloom, which is handed on from generation to generation. It will be seen

that the person or the corporation with the longest purse has a great advantage. Such a one can employ more experienced and abler counsel and can stand the mounting costs better than the person who has nothing but a just cause.

Attempts have been made from time to time to simplify procedure and to make litigation less costly and less dilatory, but so far without any great measure of success. To laymen both courts and counsel often appear much more concerned in observing the rules of the game than in administering justice as between man and man. As stated in one of our legal periodicals:¹

While every other profession has been practically made over in the past twenty-five years, the conservatism of the legal profession has stood in the way of substantial changes in the rules of procedure and practice.

Elihu Root, in the foreword to "Justice and the Poor" states:

We have had in the main just laws and honest courts to which people—poor as well as rich—could repair to obtain justice. But the rapid growth of great cities, the enormous masses of immigrants (many of them ignorant of our language), and the greatly increased complications of life have created conditions under which the provisions for obtaining justice which were formerly sufficient are sufficient no longer. I think the true criticism which we should make upon our own conduct is that we have been so busy about our individual affairs that we have been slow to appreciate the changes of conditions which to so great an extent have put justice beyond the reach of the poor.

Ex-President Taft, in an address before the Virginia Bar Association, said:

Of all the questions which are before the American people, I regard no one as more important than the improve-

¹ *Case & Comment* for July, 1917.

ment of the administration of justice. We must make it so that the poor man will have as nearly as possible an equal opportunity in litigating as the rich man, and under present conditions, ashamed as we may be of it, this is not the fact.

Note:

1. Before becoming involved in litigation reckon the cost, to the limit of the last appeal.

§ 31. Advisability of Litigation

There are circumstances under which it is necessary to go to law, and then its advisability is not open to discussion. Such circumstances may be compared with cases in which surgical operations have become imperative. The only question then is to be sure that you secure a skilful attorney to represent you. But many cases arise where there is strong temptation to bring suit, but where it might be more prudent to compromise or settle by other means. What follows applies to these debatable cases.

When you feel that you have been wronged and consult a lawyer, you want him to sympathize with you, to assure you of the merits of your case, and to advise you to show the other party that he cannot ride rough-shod over you. This is the lawyer's selling talk that you expect. You tell him to go ahead and cheerfully give him a check for a few hundred, which he says will be plenty to keep things moving until the case comes to trial.

If instead, he tells you judicially that, while you have a good case, it will save time and money to compromise in some way rather than to litigate, you take it as an unfriendly act, grudge him his modest fee for saving you a lawsuit, and tell your friends that he is too cautious ever to make much at the bar. Next time you have trouble you think you will find a lawyer with a little more "sand."

Lawyers know that most men who consult them feel this

way. As one lawyer expressed himself, it is easier to get a \$1,000 fee for trying a case than \$100 for effecting a compromise. Therefore do not expect that your lawyer is going to punish himself to do you an unwelcome service. You can try this plan:

Ask your lawyer to make you an estimate of what the case will be likely to cost in counsel fees, preparation for trial, court costs, and incidentals. Then inquire as to what amount of your time will be required for consultation, attendance on trial, waiting for the case to be called, etc. Estimate what your time is worth in your business and add to the previous amount. Estimate how much thought and worry you will put into it and how much this will detract from your business efficiency. Assume you get judgment in your favor and the case is not appealed. How does the account stand?

You may have a good case and still lose out. Such things have happened. Appeals are possibilities. There is a chance of heavy costs and fees. Consider all eventualities before you decide on your course.

Notes:

1. Prevention is better than cure. "Beware of entrance to a quarrel."
2. Calculate your costs in advance. This discourages litigation.
3. Tell your lawyer you would rather pay him to keep you out of litigation than to win your case. If he is young at the business he may take you at your word.

SUGGESTIONS TO READERS

If possible, attend the trial of a *civil case* before a magistrate. This is the court where suits for small sums are brought; its processes are simple and rapid. But its procedure is typical. Note the function

of the magistrate, the counsel, the constable, marshal, or other officer of the court. Note how witnesses are called, sworn, examined, cross-examined. Note the arguments of counsel. Then answer these questions:

1. After hearing the witnesses, how would you have decided the case?
2. After hearing the lawyers argue, would you have decided otherwise?
3. Was the actual decision just?
4. Allowing fair rates of payment for the time of the men engaged in the trial, for the judge, constable, parties, lawyers, and witnesses, how much did the trial cost the community? What was the amount involved in the litigation?
5. Was the suit a fair average as to time, amount involved, number in attendance, etc?
6. Could you devise any better system for settling disputes?

REVIEW QUESTIONS

1. Why is legal process to redress a wrong usually unsatisfactory?
2. What is the distinction between "law" and "equity"?
3. In your state are there separate courts of law and equity?
4. Can suit be brought against a person without giving him notice?
5. What is the object of the procedure in a suit before trial?
6. What defects are there in trial by jury?
7. If you were party to a suit, would you rather have it decided by a jury or by a judge? Why?
8. If a party fails to get a verdict or decision can he bring a new suit?
9. What could be done to make justice cost less in time and money? Can you suggest any method of judicial reform?
10. Should a lawyer advise litigation or compromise? What circumstances should influence his advice?

CHAPTER V

CRIMINAL LAW

§ 32. Criminal Procedure

Criminal law is administered in a manner different from the usual procedure at law and in equity. The state prosecutes for crime, and, while the accused person is called the defendant, there is no plaintiff save the state. The designation of a criminal case might be: "State of Ohio v. John Doe (name of accused)." In the different states there is more or less variation in the administration of criminal law.

Criminal prosecutions are usually instituted by a warrant sworn to by the aggrieved party before a magistrate. The magistrate then summons the accused person to appear or issues a warrant for his arrest. In minor cases the magistrate tries the person, or in some instances the accused may demand a trial by jury. Where the offense is serious, the magistrate has only jurisdiction to commit the accused to await the action of the grand jury. In most cases the accused person is allowed to give bail to insure his appearance when the grand jury meets.

Serious crimes must always be prosecuted by indictment; i.e., a written accusation authorized by a grand jury. The grand jury consists of eighteen or more men and is convened from time to time in each county to investigate any charges of crime that may be brought before it. Proceedings before a grand jury are, of course, *ex parte*, i.e., only one side is heard. These proceedings are under the supervision of the legal representative of the state, the prosecuting attorney. The object of the grand jury investigation is to ascertain what

persons should be tried before a trial jury and whether the evidence against people accused of crime is sufficient to justify the state in prosecuting them. If an indictment is found and the person has not been arrested, the authorities try to arrest him. The names of all who are indicted are placed on a criminal docket to await trial before a trial jury. The grand jury system is painfully cumbrous.

In darker ages the criminal law was so often used as an instrument of oppression and for the punishment of political offenders and the criminal laws were so cruel, that popular sympathy was with the man accused of crime and gradually he was given various rights and privileges to even up his unequal contention with the powers of the state. It is not unlikely that this process has gone too far.

In many states criminal procedure has become so complex and so overridden with technicalities that any criminal who can afford to pay skilful counsel may escape all penalty except the large payments he makes to his own lawyers. The difficulty of convicting a wealthy criminal is the scandal of our legal administration of justice.

On the other hand, the criminal law as it exists is incredibly unjust to the poor and ignorant. A widow with a dependent family started to sell fish in New York and failed to cover them over to protect them from the flies. She was arrested and fined two dollars. She did not have so much and was sent to jail for a short term, leaving her family of young children unattended.¹

If a wealthy young man is arrested for speeding, he is released on his own recognizance or a deposit of cash. The next day he is fined twenty-five dollars, promptly writes a check and walks away. Meanwhile we marvel at the growth of anarchistic thought!

¹ *Scribner's Magazine*, July, 1919. Page 115.

§ 33. Classes of Offenses Against the Criminal Law

It is well to know that offenses against the criminal law are divided into two classes: felonies and misdemeanors, according to the degree of the offense.

A felony is a grave offense, punishable by heavy penalties. A misdemeanor is a lighter breach of the law and is punishable by lesser penalties.

Burglary—the breaking into a dwelling house after dark with criminal intent—is a felony and is punished by confinement in a penitentiary. Driving an automobile too fast is a misdemeanor and may be punished by a fine or confinement in the county jail.

Criminal offenses are also divided on another basis into two classes: those which are wrong in themselves and those which are wrong merely because the law prohibits them. In order to make this distinction easier to keep in mind, lawyers use the Latin terms "*malum in se*" (wrong in itself) and "*malum prohibitum*" (wrong because it is prohibited). At the present time there are a great many naturally indifferent actions which have been made into crimes by the procedure of the legislature, and there is such a multitude of these laws that it is very hard for anyone even with the best intentions to avoid violation of the law at some time.

§ 34. Penalties

The penalties for violation of the criminal law are fines, imprisonment, and, for a few offenses, death. In this country the Constitution of the United States prohibits banishment and forbids cruel and unusual punishments.

In no direction is there greater room for reform than in our treatment of criminals. Many of these are as they are by reason of environment and lack of training. Others are mental defectives who should be humanely kept from temptations they cannot withstand. It may safely be said that our

criminal law as it is generally administered does not prevent crime, reform the criminal, or deter others from crime.

The most dangerous and vicious criminals are those who are intelligent and educated and use these advantages to keep clear of the clutches of the law, while they do things that in effect injure their fellows far more than all the burglars and murderers in the country. These are the "malefactors of great wealth" that roused Roosevelt's honest wrath. The criminal law always lags behind, and enactments to check the crimes of such as these unfortunately catch only their clumsy imitators.

REVIEW QUESTIONS

1. Who is the plaintiff in a criminal case? Why?
2. What is the function of a grand jury?
3. Can you suggest any method of improving the administration of our criminal law?
4. If a certain action, harmless of itself, has been made a crime, does it thereby become morally wrong?
5. If a man is willing to pay the penalty, say for speeding, does that justify him in disregarding the law?
6. What are the two classes of offenses against the criminal law? Give an example of each.
7. Outline the usual criminal procedure.
8. What is the primary object of legal penalties for crime: (1) retaliation, (2) protection of the community, or (3) the reformation of the criminal? What *should* be the object, or objects of the criminal law?
9. Which are the greater deterrents of crime—severe penalties, or more moderate punishments? Why?

PART II

CONTRACTS

CHAPTER VI

ESSENTIAL FEATURES OF A CONTRACT¹

§ 35. Introductory

Civilized life may be said to be founded on agreements. Whenever an individual buys or sells something, he makes an agreement. Our whole social and business life is based upon a series of understandings with those with whom we come in contact. The more complex our civilization becomes, the more agreements are made and the more extended become our contractual relations.

Whenever an agreement is of such a nature that it may be enforced in a court of law, it is called a contract. Most of the laws on our statute books and most of the laws affecting the daily life of the individual have to do with the subject of contracts. The sale of goods is a contract, the appointment of an agent is a contract, and the business done by an agent is that of making contracts. Insurance, whether of life or of property, is a contract; partnerships and corporations are both based on contracts; in fact, there is no business relation but is either itself a contract or else is based upon a contract.

§ 36. Definition

A contract is defined as an agreement between two or more parties, for a sufficient consideration, to do or not to do some specified thing or things. This is the accepted legal definition of a contract.

¹ For forms of contracts, see Chapters XCVIII-CI, Forms 1-25.

It is an agreement, and the minds of the parties, to use the technical phrase, "must meet."

There must be *two* legally competent parties to a contract; there may be many.

There must be a consideration, without which there can be no legal obligation. If a man agrees to do something, there must be a valid reason or inducement for him to bind himself. This, in legal parlance, is the consideration. If the promise were gratuitous, that is, if there were no inducement for the promise, it might be a matter of honor to carry it out, but it would not be a matter of legal compulsion. A naked promise, without consideration, cannot be enforced in a court of law.

There must be the obligation, or thing to be done. This promise may be to pay money, to do work, or to deliver goods; or it may be merely not to do something which the person contracting had a right to do.

§ 37. Essential Features

In order to make any agreement legally enforceable as a contract, there must be the following essentials:

1. The parties to the agreement must be legally competent to contract.
2. The agreement must be to do something lawful.
3. The parties must agree to the same thing.
4. There must be a sufficient consideration.

These several elements of a contract will be explained in the following sections.

§ 38. Competency of Parties

The parties to a contract may be individuals, partnerships, or corporations. The partnership name may be different from

the names of the partners composing it. The laws of most states provide that one or more persons may associate themselves under any name they choose to assume for business purposes, and upon recording it in the proper offices together with their own names and addresses may do business and contract under the assumed name.

A person would bind himself if he contracted under an assumed name. The other party might not be bound, if he was deceived.

Generally all persons are able to bind themselves by contract. It is a positive right. But there are exceptions to the general rule. Certain persons are not competent to contract, and certain other persons have only a qualified right to make contracts.

If a person has been legally declared a lunatic or a spendthrift, and a guardian has been appointed by the court to look after his property, such person has no power to enter into a binding contract. No agreement made by him could be enforced, even though the person dealing with him did not know that he was insane or a spendthrift and had been legally declared incompetent. There is one exception to this rule—a contract to buy absolute necessities for life and health. A person may supply an insane person with necessary things and will be legally entitled to payment for them.

As it is necessary for a party to give his free consent to an agreement and to know what he is consenting to, intoxicated and insane persons who have not been legally declared to be such, cannot make enforceable contracts if the insanity or the intoxication prevents them from understanding the nature of their acts at the time the contract is entered into.

The Law Varies with Location. This question of competency depends on the law of the place where the contract was made. If a person legally declared a spendthrift should go into another state, he would be perfectly capable of making

contracts there until he has been declared a spendthrift in the courts of that state. A person legally declared insane, if he had lucid intervals, might in a state other than that in which he had been declared insane make an enforceable contract in a lucid interval. The age at which a person becomes legally competent to contract varies in different states. The local law should always be consulted.

Indians. Indians living on government reservations are protected by the federal law, and may make enforceable contracts only under such conditions as that law prescribes. If they leave the reservations and enter into ordinary business relations, they are usually held liable in the same way as any other business men.

Married Women. A married woman does not have entire freedom of contract. As a usual rule a married woman cannot make an enforceable contract with her husband. Formerly a married woman could not make a contract at all without her husband's consent, but this has been changed. It is safest to consult the law of the state in which one resides before entering into a contract with a married woman, as a few states still give her a measure of irresponsibility. A married woman may, in any state, act as an agent for her husband. (See § 128.)

Minors. Minors (persons who are under legal age, which is generally 21) have only a qualified ability to make contracts. That is to say, the minor may make a contract but the other contracting party cannot enforce it if the minor chooses not to perform his part. The minor may even annul the contract after it has been performed, return the property and demand his money back, or vice versa. If the minor has taken a fraudulent advantage of the other person by leading that person to think he is of full age, the law will later prevent the minor from stating that he is under age when he comes into court, and will therefore make him perform

his agreement. If under the contract the minor has received property or money from the other party, he will be made to repay or to return it if possible; but if he has spent or otherwise disposed of it he may, as a rule, still refuse to repay or return it.

People dealing with young persons are supposed to look out for their own interests and to find out whether such parties are of age or not. The minor, because of his inexperience, is guarded by the law not only against the designs of other persons but also against his own carelessness. He is not, however, guarded against his own wrong-doing. If he injures property he will be obliged to pay damages.

After a minor has come of age he may confirm any contracts made while he was a minor. He may do this either by words or by acts. If he keeps the property obtained under such a contract for an unreasonable length of time, however, the court will consider that he has confirmed it. Moreover, unless the minor pleads his infancy in court, a contract may be enforced against him as against any other person. No one else may plead this for him. If he becomes insolvent, a receiver of his property may not call off any of his contracts for him, no matter how unfair. If the minor himself chooses to stand by them, they are legally binding.

Note:

1. It is not safe to have any business dealings with a minor.

§ 39. The Subject Matter Must Be Lawful

The subject matter of a contract is that which the agreement is about. It may consist of any property, commodity, or service which could be the subject of a business transaction, or it may be to do or not to do something, such as to pay for the privilege of naming a child, or to pay a young man to abstain from using tobacco.

An agreement to do anything contrary to law would be unenforceable. An agreement to do anything which, while not directly contrary to any special statute, would be injurious to the peace and good order, the health, or the morals of the community, would be against public policy and would be unenforceable.

The following agreements would be contrary to law or to public policy and therefore unlawful:

1. An agreement to prevent a person from marrying or to break up a marriage.

2. An agreement to persuade one person to marry another.

3. An agreement in restraint of trade. The Supreme Court has decided that agreements in *reasonable* restraint of trade are not contrary to public policy. Where a person sells out his business to another he may agree not to engage in that business again within certain reasonable territorial limits and for a limited time, but the majority of the cases in this country condemn contracts to restrain trade throughout the entire state or in the entire country for an indefinite period. It is considered to be against public policy that the people of the whole state should for any length of time be deprived of the industry and skill of anyone engaged in a useful employment.

4. Gambling contracts. Contracts for the buying and selling of "options" and "futures" and of stock "on margin," are regarded as gambling contracts in some states, and will not be enforced unless the party selling the stock was in some way entitled to it or was selling it as agent for the real owner.

Fire insurance can be taken out on property only by a party who has some interest in it, and life insurance only by the party insured, his wife, child, or some other person who would be entitled to support, or by a creditor who had a claim against the person whose life was insured, or by a

business partner or employer. Otherwise it would merely amount to a wager as to whether the property would be destroyed or when the person would die.

5. Contracts in which usurious interest is charged. Sometimes the contract itself will be enforced, but the party will be prevented from collecting interest; sometimes he will not be allowed to enforce any part of the contract.

6. Contracts to commit a fraud or a crime.

7. Contracts for the sale of adulterated goods.

8. Contracts to bribe public officials, or contracts of bribery with such officials.

9. Agreements by candidates to appoint persons to positions in case said candidates are elected, or to do anything else in return for aid in securing their election.

10. Agreements not to prosecute a person for a crime.

All of these last cases are contrary to public policy because the subject matter pertains to something unlawful and injurious to the community.

11. An agreement made in advance not to take a dispute into court. The law favors the settling of disputes out of court as much as possible; but it is contrary to public policy to deprive any man in advance of his right to be heard in court whether by agreement or otherwise. But, while two parties may not contract to refrain from taking a possible disagreement to court, they may contract to arbitrate in a specified manner before the court is resorted to.

12. A contract to perform services in return for money made by a medical student before he has been licensed, by a law student before he has been admitted to the bar, or by any other person who is required by the law to submit to certain requirements before being licensed to practice his profession or vocation and who is not yet so licensed, is void; any fees which may have been agreed upon cannot be collected.

When an illegal contract has been made, the courts will

refuse to interfere at all. The parties are simply left as they are, to straighten the matter out as best they can.

Notes:

1. A contract to do anything unlawful cannot be enforced.
2. No money paid on such a contract can be recovered.
3. No services so rendered can be made the basis of a suit.

§ 40. The Law of Place

The law which governs a contract is the law of the place where it was made. If it is to be performed elsewhere, the parties may, if they wish, expressly state that it is made in conformity with the law of the state where it is to be *performed*, provided they do not do so in an attempt to evade the law of the state where it was made. A contract made in good faith to be performed elsewhere need not comply with the law of the state where it was made if there is a conflict between the two laws, but the fact that it is to be governed by the law of a state other than that in which it was made must always be expressly stated in the contract. (See also § 38.)

§ 41. The Subject Matter Must Exist

There must be some subject matter in existence to contract about. If the contract were to add a wing to a house and the house were burned down at the time of the agreement without the knowledge of the contracting parties, there would be no contract. If, however, the contract was about something that has been lost or destroyed but that might be replaced, such as a contract for the sale of grain, the contract is valid and the party who agreed to deliver the grain must procure it elsewhere. (See also § 88.)

§ 42. Agreement of the Parties

It is essential that the parties to a contract agree on the terms; or, in legal phraseology, that "their minds meet." This agreement results usually from an offer made by one party which is accepted by the other. The offer or proposal may be oral or written, and the acceptance may be oral or written. The simplest form of contract is an offer to sell goods at a specified price and an acceptance of the goods at that price. If this offer is made by letter and the acceptance is made by letter, the two letters taken together constitute a complete contract of sale. Some other points might be mentioned, but these the law will supply. When nothing is said as to terms, the law implies cash. When nothing is said about delivery, the law implies that the buyer will be entitled to delivery when he pays the price. (See Chapter XVI.)

Acceptance by Mail or Telegraph. If the party making the offer requests an answer by mail or telegraph, the post-office or the telegraph company becomes his agent to receive the acceptance, and the agreement becomes effective the moment a properly stamped and addressed letter of acceptance is deposited in the mail-box (even though the letter does not reach its destination) or the moment a prepaid telegram (unless the other party had directed that it be sent "collect") with the proper address, is given to the telegraph company to be sent.

The point is important because the person making the offer has a right to withdraw it if he informs the other party of his change of decision before the other party has accepted, i.e., has put a letter in the mail or has sent a telegram of acceptance. In other words, a contract may be complete *before* the acceptance is actually received, and it is then too late to withdraw the offer.

If a party makes an offer by mail or telegraph, he is regarded as having requested a reply by the same means

unless he expressly asks for a reply in some other way; so that if the party receiving the offer replies in the same way, his acceptance becomes effective from the moment he mails it or gives it to the telegraph company to send. If, on the contrary, he replies in some other way, there is no agreement *until the answer actually reaches the other party*. In this last case, if the first party sends a letter withdrawing the offer and this letter arrives at its destination before the letter of acceptance reaches the first party, there is no agreement.

Manner of Acceptance. The offer must be accepted in accordance with its terms. To accept an offer in any terms other than those in which it was made amounts to a refusal. The first party may decide to accept the new terms, in which case there will be a new and different agreement, but he has the privilege of rejecting the proposed contract entirely. If the offer was made to one person only, another could not accept it; if made for a limited time, it must be accepted within that time. Advertisements offering a reward for the return of lost articles are made to the public in general and the offer may be accepted by anyone who finds the goods. An offer cannot be accepted, however, after the party who made it dies or becomes insane, and it must in any case be accepted within a reasonable time; people cannot be held to offers made long ago and forgotten, or after the circumstances which led to the offers have changed. What constitutes a reasonable time will depend on the circumstances. The party who makes the offer may set a time limit for its acceptance, after the expiration of which the offer is no longer open for acceptance. It is always prudent to accept a desirable offer promptly.

Options. In negotiations an option or refusal may be given, good for a certain time. Unless something has been paid for an option, it may be revoked at any time because it is an agreement without consideration. An option so given

is a contingent offer and may be accepted at any time before withdrawal or expiration of time.

§ 43. Oral Agreement

In many cases of contract the parties agree upon the terms orally by discussion, proposal and counter-proposal, suggestion and objection, until they think that they have arrived at substantial agreement. At this stage the contract should be reduced to writing. When this is attempted it will usually develop that each party has understood the discussion differently and a renewed discussion results. Finally, when the written agreement is agreed to by both, it is signed; and then it supersedes all understandings and binds the parties.

In most cases an oral contract is as good as a written one except that it is harder to prove. After a discussion of terms each party has a different impression of the conclusions reached. Certain parts deemed favorable by one party are most strongly impressed upon his memory, while other parts not so agreeable are not so well remembered, and after a year or so two men can honestly go into court and swear to absolutely contradictory accounts of the same transaction. Here the great advantage of the written agreement becomes apparent. That which is written changes not; and the law will not allow oral evidence to be introduced to contradict that which the parties have agreed to in writing. If, meanwhile, one of the parties has died, the written contract is yet more essential for proof. Hence, in business, one should never entrust to memory anything that can possibly be put into writing. (See §§ 46, 47.)

Notes:

1. In most disputes over contracts, the trouble arises because part or all of the contract is not written.
2. On this account the exchange of letters makes for certainty in contracts.

§ 44. Consideration

A promise to do something or to give something is not a contract, since a mere promise cannot be enforced by law. There must be a consideration for the promise; the consideration being something done, given, or promised by the other party.

One party's promise is a good consideration for the promise of another party. If A agrees to pay B for a certain service and B agrees to perform such service, a valid contract has been created and A must fulfil his promise when B has fulfilled his. Or if A promises to pay B for goods delivered to C, when B has made delivery A must pay him.

Mutual Promises as Consideration. If a person makes a promise in return for another person's promise, the law will require him to make good his promise when the first party has fulfilled his. In other words, mutual promises are consideration for each other. An example may be found in an ordinary real estate contract wherein one party promises to sell and the other party promises to buy. The consideration for an enforceable contract may be very small compared with the value of what is agreed to by the other party; it may be inadequate or even insignificant.

For instance, a man might offer to give his son \$1,000 if he would refrain from smoking until he was twenty-one. It would seem that the son gives very little in return for the money, but he is giving up the right to smoke—and the contract will be enforced. In this case, the consideration for the \$1,000 is the surrender of a privilege.

It is very common to mention the sum of \$1 in contracts where the parties do not wish the real amount of the consideration to be known. In most cases one dollar named will be held a sufficient consideration. "A valuable consideration, however small or nominal, if given or stipulated for in good faith, in the absence of fraud, is sufficient to support an action.

A stipulation in consideration of one dollar is quite as effectual and valuable a consideration, as the larger sum stipulated and paid." ²

Impossible Consideration. If the consideration agreed to by one of the parties is something impossible to perform, the contract is void and unenforceable. This would be true if one of the parties agreed to do an illegal act in return for the other party's promise. He could not be required to perform it; consequently he has given nothing.

Doing something that one is already obliged by law to do is not a valid consideration; for instance, a promise to pay a debt already owed would not be a good consideration for a new agreement. An agreement to pay half of a debt due in full settlement would not be any consideration for the other half which the law would still hold to be a binding debt. (See § 500.)

Love and affection for one's friends and relatives do not constitute a legal consideration for a contract. One does not love them more or less on account of the agreement. There is no change in the situation of the person which would make it necessary for the law to interfere to compel the other party to keep his promise.

Notes:

1. Some consideration should always be mentioned in the contract.
2. It is wiser to name the true consideration, as then there can be no misunderstanding if it becomes necessary to prove the contract in court.
3. The matter of no consideration comes up again and again in legal practice, making void otherwise good agreements, and the principle should be thoroughly comprehended.

² *Lawrence v. McCalmont*, 2 *Howard* (U. S.) 426.

REVIEW QUESTIONS

1. What are some common synonyms for the word "contract"? When does the word "contract" apply? Why is the law of contracts of wide application?
2. What is the legal definition of a contract?
3. Name and number the essential elements of a contract. What does the word "consideration" mean as an element in a contract? Give an example of a negative obligation in a contract.
4. Who are competent to make contracts? Who are not competent to make contracts? If a person not competent to make a contract signed an agreement, what would be the effect? May a person contract under any name he may assume?
5. What is the law as to a married woman's contract in the state in which you live?³
6. What is the effect when a minor makes a contract?
7. What is the legal age of majority in your state?
8. If a minor represents himself as of age, what is the effect?
9. If a minor bought a motorcycle, could he keep it and refuse to pay for it? Suppose he had wrecked it?
10. When may a creditor enforce a contract against a minor?
11. Can a minor enter into a binding contract of marriage? Why this exception?
12. What is the object of a minor's disabilities? Why is it unsafe to deal with a minor?
13. What two classes of contracts are unenforceable? What agreements about marriage are unenforceable?
14. What is the rule as to "agreements in restraint of trade"?
15. What are "wagering contracts"?
16. What is the law as to usury in your state?
17. What other agreements are illegal?
18. What does *lex loci* mean? Is a contract affected by the law of the place where it is made? A contract executed and delivered in California is the subject of a suit in New York.

³ Where questions as to local statutes are given, a note should be made and the matter should be looked up later. The statutes of the state may be consulted in some public library and the answer written after the question; a legal friend may be questioned; a letter may be written to an editor who has a query department. There are forty-eight different states and in a book of general information it is not feasible to give the varying statutes of each state, but it is of advantage to the reader to look up the particular information as to his own state and write this out where it can be found when wanted.

- What laws govern the validity and construction of the contract? What laws govern the remedy?
19. What is the rule as to existence of the subject matter? If a sale were made of a particular horse at another place and the horse had died before the contract was made, what would be the effect? Suppose the purchaser had paid for it?
 20. What terms as to payment are implied in a contract? As to delivery?
 21. When do the minds of the parties meet in a contract made by mail or telegraph? What is the rule as to the method of acceptance?
 22. A writes and offers goods to B, in another town, at a stated price. B receives the offer and immediately writes back to A his acceptance. The letter is deposited in the mail-box but never reaches A. A, not hearing from B, offers his goods to C, whose acceptance reaches A. B sues A for breach of contract. Has he a cause of action? Why?
 23. A, on March 21, wrote B, a day's journey away, and offered B a position. He ended his letter by saying: "You will confer a favor by giving me your answer by return mail." B received the letter on March 22. B on the 23d wrote her acceptance and gave it to a boy to mail. The postmark showed that it was not mailed until the 25th. A not receiving answer offered position to another. B sued for breach of contract. Has she a cause of action?
 24. What is the effect of accepting with a slight variation of terms? How long does an offer stand open?
 25. Why is a written contract better than an oral contract? Why should the terms of an agreement be definite?
 26. Why cannot an agreement without consideration be enforced?
 27. If a man owes \$100 and agrees to pay \$50 in discharge of the debt, can he be made to pay the remainder? Why?
 28. Without other consideration is payment of a smaller sum ever satisfaction for a debt of greater amount?

CHAPTER VII

HOW CONTRACTS ARE MADE

§ 45. Classification of Contracts

In this book contracts have been classified according to function, into contracts of sale, contracts of agency, etc. Certain other more arbitrary classifications of contracts, though only occasionally referred to in practice, are frequently the subject of examination questions. For this reason these classifications are explained in the present chapter.

Some of the terms are logically objectionable, but those who submit themselves to examination fare better if they give the required conventional answers than if they follow the rules of logic. For example, a common question is: What are contracts of record? Part of the required answer is: Judgments and recognizances. As a matter of fact neither a judgment nor a recognizance is a contract according to the legal definition. The parties' minds do not meet, and there is no agreement. Nevertheless the text-books call these court entries "contracts of record."

Another common question is: What is a simple contract? and the answer expected is: A contract not of record or under seal. In fact, the word simple means the opposite of compound, complex or intricate and in many cases the so-called simple contracts are more complex and abstruse than a contract under seal such as, for example, a quitclaim deed, than which no contract could be simpler. The seal, the witnesses, the notarial acknowledgment, the filing or recording of a contract in an office of registry are all matters intended to evidence the contract. They do not make it complex or affect its

HOW CONTRACTS ARE MADE

character in any way. Nevertheless, those who are preparing for examination must know how to answer questions of this sort upon occasion.

Contracts, then, may be classified in regard to dignity and facility of proof as follows: (1) oral contracts, (2) written contracts not under seal or of record, (3) contracts under seal, and (4) contracts of record.

All contracts not under seal or of record are called simple or parol contracts whether in writing or not.

Formal contracts are contracts of record, bonds and recognizances, and contracts under seal, which include all deeds and instruments affecting land that are required to be recorded in offices of public registry.

§ 46. Oral Contracts

A contract may be made simply by word of mouth or by words and acts. Such a contract is called an oral contract. If it becomes necessary to go into court in order to enforce it, it will be necessary to prove it by oral testimony. The parties to it will be called on to testify as to what was said and done, and if any other people were present either party may call them as witnesses.

In such a case the difficulty is that the agreement has not been reduced to writing and the various parties present probably have entirely different ideas as to the meaning of what they heard. The court may decide that the testimony as to what happened is so vague and contradictory that it cannot be enforced as a contract. The prudent business man will insist that all agreements be made in writing and properly signed, in order that there may be no question as to just what obligations he has assumed or what he may properly expect from the other party to the contract. Some contracts must be in writing or the courts will refuse to enforce them. (See § 48.)

Notes:

1. Avoid oral contracts.
2. Have all contracts written and signed by the parties thereto.

§ 47. Written Contracts

The written contract need not be a formal document. Two letters, one making a proposition and the other accepting it, constitute a contract just as much as a legal document duly signed and sealed and acknowledged before a notary.

The written contract should contain all the terms—the names of the parties; a statement of the consideration, with the time and the method in which it is to be paid or performed; a clear statement of just what is agreed upon, when it is to be done, and in what manner; together with any arrangements the parties wish to make if something happens to render the contract impossible of performance, or in case it is only to be performed under specified conditions. (See Chapter XCVIII, "Drafting a Contract.")

Business men are accustomed to expressing themselves clearly, concisely, and explicitly in their letters. Letters and copies are always carefully filed and preserved. For this reason when legal assistance is dispensed with, a letter from the party making the offer and a reply from the party accepting or rejecting it are usually the most satisfactory method of securing a written contract. Each party has his own records. Since they are accustomed to expressing themselves by letter, they understand what they have agreed to better than if the terms were expressed in formal, legal phraseology. Even if a lawyer is called in later, the exchange of letters is a good way of making an agreement. If there is an extended correspondence before the parties finally arrive at an agreement, the last letter should sum up all the terms on which

they have finally agreed, and this should be answered by a simple letter of acceptance, repeating the terms as therein stated. (See Chapter C, Forms 13, 14.)

Note:

1. Write all contracts. Never trust to an oral understanding.

§ 48. The Statute of Frauds

In order to do away with the uncertainty of relying on people's memories in contracts by word of mouth, there was passed in England in 1676, a law called the Statute of Frauds, which required certain contracts to be in writing. This statute has been copied into the law of most of the states of the Union.

The Statute of Frauds requires that the contract *shall* be *proved* by some memorandum in writing. It is not necessary to make the memorandum at the time the contract is agreed upon. If any memorandum or letter containing the essential terms of the contract, i.e., the names of the parties, the consideration, and enough to show the nature of the agreement, and signed by the party to be held, is written at any time before the other party comes into court to enforce the contract, the requirements of the law are satisfied.

Form of the Memorandum. The memorandum must be signed by the party against whom it is to be enforced, or he will not be liable under it. It need not be signed by the other party. Under the law as enacted in some states, this signature must be at the end; in others it is sufficient if it is put in any part of the memorandum with the intention of signing. This written memorandum need not be one paper; it may be written on two or three sheets if all refer to each other plainly and together make a complete memorandum of the terms of the contract. At an auction or a sheriff's sale, the auctioneer or

the sheriff is the agent for both of the parties and may sign a memorandum for either of them.

Contracts Which Must Be in Writing. The following contracts must be proved by a written memorandum:

1. A contract where the consideration is marriage.
2. The promise of an executor or an administrator to pay a claim against an estate which is in his charge out of his own money. If any property of the estate is left, the claim will be payable out of that, but in any case the executor or the administrator will not be liable personally unless there is a written agreement.
3. A promise to be responsible for the debt, the default, or the miscarriage of another. This means a contract of suretyship or guaranty, which will be explained later. (See Part XIII, "Suretyship.")
4. A contract for the sale of land or of any interest in land. This does not refer to a deed, but to a contract to give a deed. A deed must always be in writing. A deed which is not in proper form to operate as a deed may sometimes operate as a contract to sell the property, and the party will be compelled to give a good deed. A defective deed cannot be corrected without much trouble.

If a person makes a contract to sell or to buy land through an agent, the agent must in most states be given authority in writing to sign the contract.

Growing things, such as trees, grass, and plants that come up of themselves every year are regarded as part of the land, and a contract to sell or to buy them must be in writing. Crops which have to be planted every year are not regarded as part of the land even while they are growing.

A lease of real property, if it is to last for over a year, must usually be in writing.

5. A contract which is not to be performed within a year from the time it was made. A contract which might possibly

be performed in a year, although it might take longer, need not be in writing to be enforceable. It is always better, however, to have such a contract in writing.

6. A contract for the sale of personal property of over a certain fixed amount in value. (This is explained fully in Chapter XVII, "The Statute of Frauds.")

Note:

1. The fact that an oral contract may be unenforceable because of the Statute of Frauds is another reason why all contracts should be in writing.

§ 49. Contracts Under Seal

The use of the seal is a survival from the time when very few people could read or write. The seal was used on the most important documents as we use a signature today. Because of the importance that was attached to it then, the seal is still used on documents of the greatest importance.

Deeds and mortgages of land, and in some states wills, must be under seal. A power of attorney to deed land also requires a seal. A seal on any document, such as a deed or a contract, is regarded as showing that there was consideration for the deed or the agreement whether any is mentioned in the document itself or not. In this country, however, a person is usually allowed to prove that there was no consideration, even if there is a seal.

A seal may in many states be merely a scroll. In others a little red wafer is used. In New York the letters L.S. (*locus sigilli*, the place of the seal) which were originally intended as instructions as to where the seal should be placed, are now regarded as a sufficient seal.

A corporation generally verifies papers, particularly important documents, with its corporate seal.

A contract under seal is also called a contract by specialty.

The word "covenant" is applied as follows: (1) It may be a written agreement under seal; (2) It may be a modifying agreement contained within a deed or other sealed instrument; (3) It may be a clause of an agreement contained in a sealed instrument.

Note:

1. Seals are generally required in connection with legal papers dealing with real estate, on bonds, and sometimes on wills.

§ 50. Contracts of Record

Contracts may be distinguished as to whether or not they are of public record; that is, filed or recorded in some court or public office. The highest form of contract of record would be a judgment, which may be called a contract of record although it lacks any element of a contract. It may be founded upon a contract, but when a judgment has been secured so that it is of record, it becomes a claim that can be collected at any time at the option of the party in whose favor it has been rendered.

Another form of contract of record is what is called a recognizance. In certain legal procedures a party is required to give bond or furnish surety that he will appear before the court at a certain time or that he will keep the peace, observe the terms of an injunction, or do some other thing. Though this is a compulsory proceeding, and has no single trace of an agreement or a consideration, it is nevertheless called a contract of record.

Other contracts of record are deeds, mortgages, contracts to convey land, or other instruments which, after being acknowledged before a notary public, are filed or recorded in the office of registry for record for the particular locality. Acknowledgment is a prerequisite to registration. (See

Chapter XCIX.) These have been referred to already as contracts under seal because most of them are evidenced by a seal.

§ 51. Express and Implied Contracts

An express contract is a contract the terms of which have been spoken or written and agreed to by both parties. It is called an express contract in contradistinction to implied contracts which arise by inference and not from express words.

An implied contract is a contract that arises where no promise has been expressed. If a man orders goods from a dealer it is implied that he means to pay for them, not any price that the dealer might charge, but at their reasonable value. It is not necessary that he should promise to pay for the goods. If he orders them the promise to pay is implied or understood.

If one person accepts the benefit of another's services, the law holds that a contract to pay for them at what they are reasonably worth is implied, and the person who performs the service may claim compensation in court.

The same reasoning holds if a person occupies land, buildings, or rooms. The law implies a promise to pay a reasonable rent. If two people have a running account with each other, the law considers that they have promised each other that the one from whom a balance is found to be due shall pay that balance to the other. The promise to pay is based on the fact that the party has willingly taken the benefit of what was done. If something was done for him without his making any request, and without his afterwards making any use of it, he could not be charged for it.

If, without orders, a man left bread at your door every morning, and you used it, the law would imply a promise on your part to pay for the bread. If he put a new roof on your house in your absence without orders, he could not collect for

it, because you would have to use the new roof whether you desired such repair or not. In case the person who performed the service intended to do it without claiming payment for it, it would be a gift and there would be no implied contract to pay for it.

Note:

1. It is always most satisfactory to have a distinct understanding as to prices for services rendered. Even lawyers, dentists, and plumbers are sometimes believed to overvalue their services.

§ 52. Quasi Contracts

It will require close observation to distinguish implied contracts from *quasi* contracts. A *quasi* contract is a contract implied in law from the circumstances and without regard to the intention of the party who is bound. For example, a man staying at a hotel suddenly dies. The proprietor of the hotel calls in an undertaker who takes charge of the funeral preparations. The undertaker sends his bill to the executors of the man's estate. In this instance there was no consent on the part of the man or his representatives, yet by law it was implied that his estate should be bound for the obligation, and that there was a *quasi* contract to that effect.

The following is another case of *quasi* contract: In California a law was passed providing for a certain number of pilots to meet ships coming into the bay of San Francisco and take the ships in. Each ship was to pay its pilot a certain sum. Therefore, if a pilot took the trouble to go out to meet a ship and the officers did not wish his services, he would have to be paid a sum, if not the full and usual fee, enough to pay for his time and trouble in meeting the ship.

§ 53. Executory and Executed Contracts

An executory contract is a contract that has been made but has not as yet been carried into effect.

An executed contract is one that has been carried into effect by both parties. A contract that has been carried out by one party and not the other would be executory from one point of view and executed from the other point of view.

§ 54. Conditions Precedent and Subsequent

A condition precedent is something to be performed before the other party can be required to do his part. It is sometimes called an executory condition. In the usual contract of employment it is necessary to do the stipulated work before there is any claim for payment. The performance of the work is the condition precedent. (See also §§ 109, 110.)

A condition subsequent is a condition attached to a contract the fulfilment of which will discharge the obligation. The simplest instance of this is the purchase of goods with the privilege of returning them within a certain number of days after the goods are sold. If the goods are returned the contract of sale is annulled, and the purchaser is not liable for the price, or if he has paid he will be entitled to have the amount refunded.

A chattel mortgage is another instance of a condition subsequent. If the condition is performed and the payment secured or made, the chattel mortgage becomes void and the person who makes the payment has clear title to the goods.

§ 55. Void and Voidable Contracts

A void or unenforceable contract is one which has no legal effect and on that account cannot be enforced. It is not necessarily an illegal contract, though an illegal contract would be a void contract.

A voidable contract is not absolutely void, but it can be

avoided by one of the parties concerned. A contract with a minor can be enforced by the minor but if he does not wish to carry it out he can avoid it. (See § 38, "Minors.")

§ 56. Drafting a Contract

Where an important contract is to be drawn up, a lawyer should be employed. Where the contract involves nothing more than a simple sale, a contract of hiring or other ordinary business transaction, any intelligent man who knows how to use the English language should be able to draw up a plain, understandable statement of what the parties undertake to do. A chapter in the latter part of this book has been given to this subject. (See Chapter XCVIII, "Drafting a Contract.")

REVIEW QUESTIONS

1. Classify contracts as to grade or ease of legal proof. What is the difference between simple and formal contracts?
2. How must an oral contract be proved?
3. What data should a written contract contain?
4. What is the Statute of Frauds? What was the object of it? By whom must the required memorandum be signed? Which are the contracts that must be in writing?
5. Where must written contracts be signed in your state?
6. In marriage, is the contract a written one?
7. When is one liable for a debt, default, or miscarriage of another? Does a loan have to be evidenced by writing?
8. Is an oral contract to sell real estate enforceable? Give reason for answer.
9. What amount of personal property would require a written contract for its sale in your state?
10. Would a contract to write a book have to be in writing?
11. What instruments require a seal? What form of seal is required? What is a contract by specialty? What is a covenant?
12. Define contracts of record. What is a recognizance? What is the object of acknowledgment?

13. What is the difference between express and implied contracts?
14. What is a *quasi* contract?
15. What is the difference between an executory and an executed contract? May a contract be executed on one side and executory on the other?
16. What is a condition precedent? What is a condition subsequent?
17. What is the difference between a void and a voidable contract? If you contracted to rent a house that burned before the tenant moved in, would it be illegal? Would it be a void contract?

CHAPTER VIII

EFFECT OF CONTRACTS

§ 57. Illegal Contracts

What constitutes an illegal contract has been explained in § 39. The point to make is that no contract which is against the law or against public policy can be enforced. If the parties come into court, both are equally chargeable with knowledge of the law and therefore with guilt in breaking it; and the court will refuse to help either or to interfere at all. If one of them has been defrauded out of his property by inability to enforce the contract, that constitutes his punishment for entering into such a contract. Such a party cannot get his property back nor can he enforce the contract.

There is a legal maxim to the effect that "ignorance of the law excuses no one." This seems harsh, but it is rigidly enforced. Therefore, if there is any doubt about the legality of a contract, the parties should assure themselves that it is in accordance with the law. Ignorance or good intentions will not excuse a man if he makes an illegal contract. (See also § 59.)

Sunday Contracts. In almost every state contracts made or to be performed on Sunday are illegal, unless they are for some purpose of charity, necessity or mercy. To be necessary, however, the thing done must be something intended to preserve life, health or property.

§ 58. Effect of Mistakes

There are two kinds of mistakes possible in making a contract:

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1. A mistake as to whom one is dealing with, what the agreement is about, or what is to be done under the contract.
2. A mistake as to the quality or the value of the subject the contract deals with, or its legal effect.

A mistake under the first heading will mean that there is no contract. A party cannot be forced to observe a contract with someone with whom he did not intend to contract, or in regard to something he did not consider. The parties must be considering the same thing and must be agreed as to what is to be done about it, or there is no meeting of their minds and no contract.

If, however, there was no mistake as to the parties, or as to what the contract was about or what was to be done, the fact that either or both of the parties believed that the subject of the contract was more or less valuable than it actually was will not make any difference as to its binding effect. An agreement has been made and they will be held to it even if it means loss to one of them.

Neither will it make any difference if either or both of the parties did not realize that he would be bound by the contract or did not know just what he was required to do under the law to carry out his agreement. Every man is supposed to know the law, and it is his own fault if he failed to find out about it in the first place.

If a person knows that the instrument he is signing is a contract, and fails to read it, he will be bound by it even though it is a contract to do something entirely different from what he intended. No one should ever sign contracts without reading them.

In case, however, through the fault of some clerk in writing the contract an error of some sort gets into the written document so that it misrepresents the actual agreement be-

tween the parties, the court will order it rewritten to express what they really agreed upon. That is, a clerical error will be corrected.

Note:

1. The terms of a contract should be written down clearly and in simple language. Both parties should then read them over, and any questions that arise should be cleared up before signing. Much trouble and litigation would be saved if this course were followed in all cases.

§ 59. Effect of Fraud

If there is any fraud in inducing a party to enter into a contract, he may refuse to perform his share of the agreement. If the contract is already carried out, he may recover his property or its value. If he wants to annul the contract, however, he must return anything he has received under it unless it has been used up or destroyed at the time he discovers the fraud. If he prefers, he may let the contract stand and claim damages for any loss he may have suffered.

What Constitutes Fraud. If any false representation is made by a person who knows it to be false or has no positive belief or adequate knowledge in regard to the matter, intending to induce action and to create a false impression in the other party's mind, or to prevent him from investigating to find out the truth about the transaction, it amounts to a fraud. Misstatements about unimportant matters, or mere expressions of opinion in recommending an article for sale, do not affect the contract. The buyer must be on his guard against overstatements of opinion by the seller as to the virtues of the article he is selling. Overstatements are to be expected everywhere.

When a party relies on the opinion of an expert, however, or when he seeks advice from a person in whom he has a

right to repose confidence, such as a father, a guardian, or an attorney, it is a different matter. Then an expression of opinion without sound grounds would amount to fraud.

If the reading of a contract be dispensed with as the result of fraud, the injured party may refuse to live up to the terms of the contract, or he may claim damages for the injury sustained. This rule holds good also whenever the legal effect of the contract has been misrepresented or when a fraudulent value is placed on that which is being bought or sold.

The injured party must act promptly as soon as he discovers the fraud. By delay he may lose his rights, since he will be considered to be content with the terms of the contract.

Taking advantage of another person's mistake is fraud.

In *Shelton v. Ellis, Shelton & Co.* learned of a mistake in the rate sheet of the Western and Atlantic Railroad Company by which the fare from Atlanta, Ga., to Rogers, Ark., was quoted as \$21.25 when it should have been \$36.70. They induced Garland, a traveling salesman, to buy a large number of tickets for them before the railroad company discovered the mistake. The court held that the tickets must be returned.¹

If any part of the representations which induced the other party to enter into the contract was fraudulent and had any effect in inducing him to agree to it, the fact that most of the representations were honest will not make the contract good. But if the fraudulent representations referred to matters of no consequence and were not material to the contract they will not affect it. Also, if the other party relied on his own judgment in the matter, rather than upon what was told him, the fraudulent misrepresentations will make no difference.

What Fraud Will Nullify a Contract. Fraud in any of the negotiations leading up to a contract will nullify it. If fraud has prevented the party from making an independent investigation, or if it has led him astray in regard to the facts, it will

¹ 70 Ga. 297.

make the contract void. Fraud not connected with the immediate contract but with previous negotiations will not affect the present contract.

Specious Schemes. Ordinary people of the salaried and the professional classes lose money running up into millions of dollars by investing in all sorts of specious get-rich-quick schemes. If they would study the prospectuses of these schemers, they would see how carefully they are written so as to avoid any positive statements but to give a strong impression by a series of carefully worded opinions, estimates, etc. Such phrases as, "it is estimated," "it is expected," "there is every reason to believe," "it is the opinion of old miners," are used again and again. It is astonishing how plausible a prospectus can be made without giving any positive statement, except as to comparatively immaterial matters. The important matters in deciding upon an investment are:

1. The character and the experience of the management.
2. The amount of capital there will be available.
3. The subject matter of the business.

On these essential points there is rarely any positive information in prospectuses of this sort.

Note:

1. Consult your own lawyer or banker before investing money.

§ 60. Duress

A party must consent to a contract of his own free will. That is the essential element of an agreement. Consequently, if his will is overpowered by that of someone else, the result cannot be a contract that will hold him.

There are two ways in which a person may induce another party to make a contract against his own free will. One is by

the use of intimidation or force, the other is by taking advantage of mental weakness or of affection to influence him.

If a party signs a contract in order to escape from imprisonment or detention of some kind, he has signed under duress and not of his own free will and the contract cannot be enforced. If he signs it in fear of immediate bodily harm, which he has every reason to believe the other party is capable of inflicting, the same holds true. In a case where there is no detention but merely threats, the threats must be either of bodily harm or of imprisonment to the person himself or to some member of his family, or of an injury to his property, and must have been made under such circumstances that a man could reasonably believe that there was immediate danger of their being carried out.

As soon as a party escapes from duress or from fear of the threats that coerced him, he may rescind his contract and recover any property or other consideration, or value therefor, that was taken from him under the contract.

§ 61. Undue Influence

Undue influence is when one party takes advantage of another through near relationship, such as that of attorney and client, doctor and patient, guardian and ward, etc.; or when the second party is mentally weak and at the mercy of his more keen-witted fellow men. A deficient person can hardly be said to exercise his own free will; contracts can readily be imposed upon him by others, and when this imposition can be proved, contracts made with him have no legal standing.

When a person takes advantage of mental weakness, or of near relationship, or of confidence reposed in him to influence another person to make a contract, it is not the free action of the second party and is no contract. People who are merely friends are not considered to be in such a position that the one can exercise an undue influence over the other. Where the

consideration for a contract is plainly inadequate, it may raise a suspicion of undue influence.

If the person recovers his mental health, or is separated from the party who influenced him, he may refuse to carry out his contract and recover anything he has turned over to the other party under it.

His friends and relatives may also act for him in order to protect his property while he is still under the influence of the other party, or too incapacitated mentally to act for himself.

Note:

1. No contract is of any value unless it is made by the free and unbiased will of both parties.

§ 62. Law as to Alteration

Any alteration in a written contract by one of the parties without the consent of the other, makes the contract of no effect as against the other.

The parties to a contract may alter it if they can agree on the changes to be made. If it is a written contract, one of the parties may make the alterations in the contract itself with the consent of all the other parties, or the parties may make a new written contract. If parties attempt to modify a written contract by an oral agreement there must be a new consideration for it distinct from that of the original contract, so that in effect a new and oral contract has been made.

A New Agreement. If the same parties make a new agreement about the same subject which is entirely inconsistent with the old agreement, the old agreement will be regarded as set aside by the new. If, however, there is any part of it which is not inconsistent with the new, that part still remains enforceable. (See also § 69.)

If one of the parties to a contract makes alterations in it without the consent of the other parties to it, this amounts to fraud, and the contract becomes unenforceable by the guilty

party. If a person, not a party to the contract, and not acting for any of the parties to it, should make alterations in it, they would be treated as though they did not exist. The nature of the original contract could be proved by the testimony of the parties, and the contract would be enforced as it stood before the alterations were made.

Filling in a Contract. If the contract is not complete, however, but blank spaces have been left for any of the terms to be filled in later, any party to it to whom it is entrusted may fill out the blank spaces in any way which would be consistent with the other terms of the contract and enforce it as he has made it. If he were given instructions for filling it out, he himself could not enforce any other contract than one that was in accordance with the instructions, but he might fill it out contrary to the instructions and transfer it to another party, who, knowing nothing of the instructions, would be entitled to enforce it as he received it. This question arises more often in the case of negotiable instruments and will be spoken of under that heading. (See § 161.)

Notes:

1. The best way to change an existing contract is to make a new written agreement signed by all the parties.
2. A new contract may be made by letters if they point out clearly what the new agreement is.
3. It is not safe to leave any written instrument with unfilled blanks.

§ 63. Interpretation of Contracts

A contract should be so clear that its meaning may be easily understood. As a matter of fact, many contracts are far from clear and all sorts of disputes arise over their meaning. A contract should be interpreted so as to carry out the intention of the parties as nearly as may be. The court will

try to interpret a contract in such manner as to make it lawful and enforceable. In this matter law and common sense coincide. A contract will be interpreted according to the law of the state where it was entered into.

In getting at the intention of the parties where the contract is not clear, anything which is unessential and tends to confuse the meaning will be disregarded. If there are two statements which absolutely conflict, the court will consider that the first gives the true meaning and will disregard the latter.

The parties may bring in evidence to show the meaning of any technical terms which were used, or to prove some well-recognized custom or usage of business which will explain the meaning of certain terms, or which may be considered part of the contract.

If a contract refers to any other papers or documents, these will be read in connection with it.

Rules to Ascertain Meaning of Contracts. There are certain general rules which the court will always follow to get at the meaning of a contract. One is that in a printed form which has been filled out, if the written and the printed words are inconsistent, the court will disregard the printed words and follow the written ones. If any words or phrases are inconsistent with the rest of the contract, and a clear intention can be gathered from the rest without them, the court will treat them as surplusage.

If a general term is used, such as an agreement to do the "mason work" on a building, and it is followed by the mention of any specific kinds of mason work, such as "stone and brick work," "plastering," etc., it is a contract to do only the special kinds of mason work mentioned and not *all* the mason work on the building. In order to make a general contract for all the mason work, this intention should be clearly stated.

If any of the terms of a contract were intentionally made ambiguous by one of the parties for the purpose of taking

advantage of the other party, the court will interpret the doubtful terms in the way that will least favor the party at fault.

In trying to decide what the parties intended where the meaning is doubtful, the court will be influenced by the words and the acts of the parties at the time of making the agreement, or the manner in which they have carried it out since. Their manner of carrying out the conditions shows what they understood by the agreement.

Notes:

1. A contract should always be stated in the simplest and most intelligible language possible, and the parties should go over it carefully to make sure that all of the terms are clear.
2. If it be desired to make it with reference to some particular business custom, it would be well to mention that custom in the contract so that there can be no doubt that both of the parties understood that it was to be part of the contract.

REVIEW QUESTIONS

1. Is the rule in regard to ignorance of the law just? Why is it enforced? What is the law in your state in regard to Sunday contracts?
2. Explain the distinction between mistake of party, subject matter or obligation, and mistake of the quality, value, or legal effect.
3. What is the effect of signing a contract without reading it? If the party had dispensed with reading because of fraudulent statements of the other party, would that affect the situation? What is the effect of a clerical error?
4. Broadly, what is the effect of fraud on a contract? What is fraud?
5. Distinguish between misrepresentation and expression of opinion. When is the expression of opinion liable to be fraudulent?

6. Can a person take advantage of another person's mistake?
7. Do fraudulent representations always make a contract void? What are the exceptions?
8. How are prospectuses worded to avoid open fraud? What are the three vital points in any proposed investment?
9. What does "duress" mean? What is its effect on a contract?
10. What is meant by "undue influence"? What is its legal effect on a contract?
11. What is the law as to altering a contract? What is the best way to alter a contract? Why?
12. Disputes often arise over the interpretation of contracts. Why?
13. What is the object of the rules for interpreting contracts?
14. A bought a cash register on the statement that it would save the expense of a bookkeeper and one-half of the clerks' time. After a short time he alleges that the statement was false and seeks to rescind the sale on the ground of fraud. Was this fraud, or statement of opinion, and what is the result?

CHAPTER IX

ASSIGNMENT AND NOVATION

§ 64. Assignment of Contracts

A contract which calls for personal services cannot be assigned by either of the parties to it. No one can be compelled to work for a person unless he agrees to it; and no one can be compelled to have another working for him whom he did not choose, and these conditions would result if such contracts could be assigned.

A contract which depends on the skill, ability, or trustworthiness of one of the parties to it cannot be assigned by that party, but may be assigned by the other party. For example, a contract to write a poem cannot be assigned by the poet, but may be assigned by the publisher.

The rights in any other contract may be assigned by either of the parties to it unless there is something said in the contract to forbid it. A party may assign a contract by simply handing the written contract over to the party to whom he assigns it, or by informing the other party to the contract by word of mouth that he has given up all his rights under it to the person to whom he wishes to assign it.

Where the party desiring to assign a contract is under obligations under the contract, he cannot assign these without the assent of the other party to the contract (see § 65, "Novation"); otherwise he would still remain liable for whatever he had bound himself to do or to pay in the contract.

Form of Assignment. The proper way to assign a contract is in writing, usually on the back of the contract, if it is in writing, or if it is an oral contract, by a written assignment.

In the case of contracts under the Statute of Frauds, the law requires the assignment to be in writing. No particular form of words is necessary if the intention to transfer all the rights in the contract is plain. (See Chapter C, Forms 18 and 19.)

Liabilities of the Assignee. A person to whom a contract is assigned by one of the parties becomes liable to perform all the duties of the party who assigns the contract. He receives only such rights as the original party enjoyed under the contract. If the contract was obtained by fraud, duress, or undue influence, or the other party to it was not competent to make a contract, such other party may refuse to perform it just as much as though the assignee were one of the original parties.

If the party who assigned the contract owed the other party anything which could have been offset against the contract, the other party may offset that amount against the person to whom the contract has been assigned.

Rights of Assignee. If a party should assign all his rights under a contract to one person and afterwards assign them to another, the second person would get no rights under the contract. If the party assigned only part of his rights to the first person, the second person might enforce such rights as remained. The second person would be entitled to sue for damages the party who claimed to assign the contract to him.

Subject to the rights of the other party, the person to whom a contract has been assigned may bring a suit to enforce it in all cases where the party who assigned it to him would be entitled to do so. In some states, if he sues in a court of law, he must bring his suit in the name of the person who assigned the contract to him. He may sue in a court of equity in his own name. In a case where there have been several assignments, the suit must be brought in the name of the party who gave the first assignment.

A person to whom a contract has been assigned should notify the other party to the contract at once that the rights under the contract have been assigned to him. If there has been an assignment to any other parties, the one who is the first to give this notice will be entitled to have his rights enforced first. Then, too, it prevents the other party from paying out anything to the person who has assigned the contract. If such payment has been made in ignorance of assignment, the party to whom the contract has been assigned could not compel payment again to himself.

Notes:

1. All contracts which do not involve the personal element may be assigned unless prohibited by the law or by public policy.
2. Any form of assignment which cuts off all control of the assignor over the contract will be sufficient.
3. The assignee takes all the rights which the original party had in the contract, and the contract is subject to all the defenses which have arisen prior to its assignment.
4. The assignee should always give the other party prompt notice that the contract has been assigned to him.

§ 65. Novation

Novation is the substitution of other parties, or another party, for one of the original parties to the contract.

Where John Smith has an agreement with Henry Jones to buy a horse for a certain sum, and instead of doing so he assigns the contract to Samuel Brown, and Henry Jones agrees to take Samuel Brown as party to the agreement, this is a novation. Samuel Brown has been substituted for John Smith in the contract, which can now be enforced against him, Samuel Brown.

Agreement of Parties. In order to constitute a good novation, all the parties must agree to the arrangement. Henry Jones must discharge John Smith from his agreement to pay for the horse, and take Samuel Brown's agreement in place of it; John Smith must have assigned all his interest in the contract to Samuel Brown, whose agreement to pay for the horse is the consideration for Henry Jones's acceptance of him as a substitute for John Smith. If any of these considerations are lacking, the novation will not be enforceable.

In *Ford v. Adams*,¹ Jacob Schyer owed Ford some money. He gave a written order to Adams, who owed him, Schyer, to deliver 40 cords of wood to Ford. Ford accepted the substitution. Adams did not deliver the wood, and Ford sued him for it. The court said that there was not a good novation, because it was not shown that Schyer had released Adams's debt to him, and without that there would be no consideration to Adams for his promise.

Notes:

1. To constitute a good novation, the other party to the contract must accept the substitution and must release the party making it from his obligation to him.
2. The party making the novation must assign to the new party all his interest in the contract.
3. All of the parties must accept the new arrangement.

REVIEW QUESTIONS

1. Why cannot a contract for personal services be assigned?
2. Can a written contract be assigned orally?
3. Write an assignment of a written contract.
4. What does the assignee of a contract have to do?

¹ 2 Barb. (N. Y.) 349.

5. What rights would an assignee have? Can an assignor relieve himself of his liability under a contract by making an assignment?
6. Why should an assignee notify the other party to the contract promptly?
7. What is novation? How many parties to a novation?
8. Distinguish a novation from an assignment.
9. Write an assignment of an account.

CHAPTER X

DISCHARGE OF CONTRACTS

§ 66. Discharge by Performance

The usual way to discharge a contract is by performance or fulfilment. This means performance by both of the parties. Performance by only one of the parties releases that party from liability on the contract, but does not discharge the contract or release the other party from his obligation.

Under the old common law rule, the performance must be strictly in accordance with the provisions of the contract. This has worked so much hardship and real injustice that equity has modified the doctrine, and allows a substantial performance with damages to compensate the other party for any loss he has sustained.

Substantial Performance in Construction Contracts. If the variations in performance of an agreement were intentional, they would amount to breach of the contract. Where they were not intentional, the other party is entitled to deduct from the price the value of any such omissions as there may have been, and to have them repaired himself if he desires. This rule applies especially to construction contracts, and even in an action at law substantial performance will be sufficient.

In *Heckman v. Pinkney*, Heckman had a contract to do the carpentry work on a house that was being built for Pinkney. He failed to make cornices and to put centerpieces in some of the rooms according to the agreement; and the material for deadening the floors did not have hair in it, as had been stipulated. The court said that the variations were

not intentional or material, and that the contract had been substantially performed.¹

At law, time is of the essence of a contract; that is, performance must be within the time specified, or the party guilty of delay will be liable for damages for non-performance. If, however, the injured party accepts performance after it is due, he must pay the fair value of what is done, though he is allowed to deduct damages for the delay.

In equity, time is not of the essence of the contract unless it has been expressly agreed that it shall be. That is, a court of equity will often enforce the contract in favor of the party who has delayed, unless in fact or by express agreement failure to perform on time amounts to failure to perform at all.

Where the parties agree that the contract must be performed to the satisfaction of one of them, nothing which does not satisfy him will be performance. At the same time, he must be honest about his dissatisfaction and not pretend to be dissatisfied when he is not really so. Sometimes there is an agreement that the judgment of a third person shall be the test as to whether the contract is performed or not. In such case, the contracting parties must abide by his judgment, unless he is mistaken or fraud is shown.

Notes:

1. Performance must be substantially in accordance with the terms of the contract.
2. Where time is material to the contract, the performance must be within the time set.
3. Where the parties agree that the performance must be to the satisfaction of one of them, or to the satisfaction of a third party, the honest judgment of that party is the test of whether or not the contract has been performed.

¹ 81 N. Y. 211.

§ 67. Discharge by Agreement

An agreement between the parties to rescind a contract, or a later agreement between the same parties with regard to the same subject matter, the provisions of which later agreement are inconsistent with the contract, will discharge the original contract.

The agreement to rescind the contract must, like all other agreements, conform to all the rules governing contracts. The release of one party from his obligations is the consideration for the release of the other from his. But, where one party has performed his part of the contract, there must be some new consideration to him for releasing the other, or the agreement to rescind will not be enforceable.

There is only one case in which the parties may not agree to cancel a contract, and that is when it was made for the benefit of a third person and the third person has notified them that he accepts it. At any time before he accepts they may declare the contract void. For instance, a farmer might come into town and tell a storekeeper to send away and get a suit of overalls for his hired man and he would pay for them. He informs the hired man of what he has done and the hired man tells the storekeeper that he will call for the overalls when they are expected. At any time before the hired man told either the farmer or the storekeeper that he would take the overalls, they might have cancelled the contract, but not afterwards. In all the states, with the exception of Massachusetts, Michigan, New Hampshire and Vermont, a third person may maintain an action for the breach of a contract for his benefit.

If two parties to an agreement make a new agreement about the same subject matter which is inconsistent with the old agreement in any way, the old agreement will be discharged to that extent. For instance, in an agreement of novation (see § 65), by accepting the substituted party, the

other party discharges the party making the novation from his obligations under the contract.

If the parties put an oral agreement into writing or instead of a written agreement make a new contract under seal, the old contract is discharged and they are bound only by the new agreement.

Notes:

1. The parties may agree together to rescind a contract, except that where it was made for the benefit of a third party, they may not rescind it after he has given notice of acceptance.
2. A later agreement, between the same parties and with regard to the same subject matter, the terms of which are wholly or partly inconsistent with a prior agreement, revokes that agreement so far as it is inconsistent with it.
3. An oral agreement is superseded and discharged by a later written agreement, and a contract in writing but not sealed is superseded by a sealed instrument.

§ 68. Discharge by Various Other Causes

Operation of Law. A contract may be discharged by the operation of law. When a contract is discharged by the making of a new written or sealed contract, as has already been explained (§ 67), it is discharged by the operation of the law which declares that a written instrument is of greater value than an oral agreement, a sealed instrument than a written contract. When a person goes into bankruptcy, the law discharges all of his contracts with a few exceptions.

Impossibility of Performance. There are some cases in which impossibility of performance discharges a contract. If it were for some particular article which could not be replaced and the article were destroyed, or if it were a contract for

personal services and the person to render the services became ill or died, the contract would be considered discharged, and there would be no liability for damages. The parties are considered to have realized that if such a thing were to happen the contract could not be performed, and to have made the contract on the understanding that it would be carried out only in case the article were in existence or the person were able to perform at the time. If the one party to a contract by his acts made performance impossible, it would discharge the other party from all obligation. Contracts for the payment of money are not discharged by the death of either party, but contracts involving personal skill, trust or confidence between the parties are discharged by the death of one of the parties. This does not, however, apply to contracts which can be carried out by the executors of the deceased, such as to have a house built or painted.

Act of God. Where the performance becomes impossible by what is known as an "act of God," that is, a tornado, a hurricane, a flood, a conflagration, or some other accident or disaster amounting to a public calamity, the contract is discharged. Ordinarily a person takes the risk of the contract being impossible to perform if he does not make some provision for it in the agreement, and impossibility of performance is no excuse.

In the case mentioned in § 41, where the subject matter was destroyed at the time the contract was made, if one of the parties knew of it, he will be held liable for a breach of the contract, notwithstanding that it is impossible for him to perform it. In the case of a contract where one of the parties promises to do one of two things, if one of those things was impossible at the time the contract was made, he must perform the other.

In Case of War. When two countries go to war, all possibility of friendly relationship between them ceases. All

contracts between their citizens on which nothing has yet been done are discharged. If anything has been done by either party under a contract, and it is possible to do so without injustice to either party, the contract will merely be suspended until the war is over, when it must be carried out fully in accordance with its terms.

Effect of Strikes. A contract may provide in itself that it is to be discharged on the happening of certain conditions. It is very common to provide against strikes, etc., in this way. The provision, however, must be in the body of the contract to be good. A notice at the top of the firm letterhead that all sales were to be subject to strikes or accidents would not form part of a contract written under such letterhead.

As a general rule, printed conditions on a letterhead are not binding on the party receiving the letter. If any matter is important it should be written in the body of the letter.

Lapse of Time. Any contract is supposed to be performed within a reasonable time. Even if no time for performance be given in the contract, it will nevertheless be discharged if a long period of time goes by without anything being done on it by either party.

Offer to Perform. If due performance is offered by one party and is not accepted by the other, the first party is discharged.

Notes:

Contracts may be discharged:

1. By the operation of conditions agreed to by the parties.
2. By merger or alteration of a written instrument, or by the discharge of the party in bankruptcy.
3. By lapse of time if delay is unreasonable.
4. By an offer to perform, if it was refused by the other party.

5. By impossibility of performance, where the impossibility is caused by the act of the other party; by the operation of law; by a declaration of war; or by the destruction of the subject matter where the contract concerned a particular article or was for personal services; but not otherwise.
6. In making contracts to handle orders, to carry on construction work, etc., involving large amounts, where there is a possibility of strikes and various labor disputes preventing the finishing of the work at all, or at least within the time limited by the contract, parties should always provide against such delays. It is usually safe to have a fire clause, and to provide against destruction by floods, tornadoes, etc.

REVIEW QUESTIONS

1. What is meant by the discharge of a contract?
2. What is meant by substantial performance?
3. What is the rule as to time of performance, at law? In equity?
4. Is it safe to agree to make performance to the satisfaction of an interested party?
5. What is meant by "discharge by agreement"?
6. If one party had performed his part of the contract, could the parties agree to rescind? What element would be needed legally to rescind a contract?
7. What effect does the interest of a third party have?
8. What is the effect of making a new contract of greater dignity than the old contract?
9. What is the effect of bankruptcy on pending contracts?
10. What is the effect of impossibility on a contract? What is the situation when a contract becomes impossible but the contract is not discharged?

11. In what cases does impossibility discharge the contracts? What kinds of contracts are discharged by the death of the party to perform?
12. What is the effect of specifying certain causes as operating to discharge the contract?
13. A father conveyed land to his son on his son's covenanting to pay an annuity to his mother on her widowhood. May the mother maintain an action, not being a party to the covenant?
14. B orally requested A to do certain carpentry work around his house in the nature of repairs. B died. A subsequently performed the work and brought suit against the administrators for the price. Can he recover? If so, why so; if not, why not?
15. Does outbreak of war nullify contracts if it simply changes prices?
16. What is the effect of lapse of time and non-performance?
17. If one party offers to perform and the other party does not accept, what is the effect as to each party?

CHAPTER XI

ENFORCEMENT OF CONTRACTS

§ 69. Breach of Contract

The obligation of a contract is an obligation created and determined by the will of the parties. Herein is the characteristic difference of contract from all other branches of law. The business of the law, therefore, is to give effect so far as possible to the intention of the parties, and all the rules of interpreting contracts go back to this fundamental principle and are controlled by it.¹

A contract may be broken by either party in one of several ways, such as:

1. Failing to perform the contract.
2. Refusing to perform the contract.
3. Making it impossible for himself to perform the contract, or denying that there is such a contract.

Failure to Perform. If a party breaks a contract by failing to perform it, the other party must have done all that can be required from him under the contract before he is entitled to bring suit. If his part of the contract was to pay *after* the other party had performed it, he need not pay until such performance.

If a party was to perform work or to deliver goods for which the other party was to pay, he must be able to show that he has either performed or offered to perform the work, or that he has delivered or offered to deliver the goods, before he has any right to claim damages. A party must remain

¹ Encyc. Brit., 11th Ed., Vol. VII, page 38.

ready and willing and in a position to perform what he agreed during the entire time of the contract; it is not enough once to have made the offer.

It is often hard to determine just when a contract has been broken by failure to perform. Unless the time within which it was to be performed was an important part of the value of the contract, the courts usually give parties what they consider a reasonable time in which to complete it, whether the contract sets a definite time for its completion or not.

A Reasonable Time. The difficulty is to know what the court will consider a reasonable time. The parties may, however, have this determined beforehand by stating in the contract that "time is of the essence (that is, an essential part) of this contract," in which case the court will enforce it within the time specified. Or, if this has not been done, the party for whom the services were to be performed or to whom the goods were to be delivered, etc., may demand that the other party fulfil his part of the contract within a certain time or he will consider it broken. If he has really given the other party a reasonable time, he will have a right to bring action if the services agreed upon have not been performed within that time.

A party is always allowed until the last minute of the time set to perform, and the day on which the contract was dated or the demand made will not be counted as a part of that time; for instance, if the contract was dated or the demand made on July 1, giving him 30 days in which to perform the contract, the time will not be considered to have expired until midnight of July 31.

Refusal to Perform. If a party refuses to perform the conditions of the contract when the time comes for performance, he also relieves the other party from further obligation and gives him an immediate right to sue for damages.

If a party refuses to carry out a contract before the time for its performance has arrived, in some states the other party has a right to regard this as final, but in the other states he must wait until the time for performance has passed before he is entitled to bring suit.

When a party notifies the other party that he does not intend to perform his part of the agreement and tells him to stop work on it, the latter, if he accepts the notice, should stop work immediately. He may, if he prefers, however, ignore the notice and treat the contract as still existing by continuing to perform his part, though he may not collect for work performed after notice.

Denial of Contract. If a party denies that there is a contract, or makes it impossible for himself to perform it by disposing of its subject matter in some way, the other party is immediately relieved from all obligations and has the right to sue at once for the damages he has sustained.

Notes:

1. Refusal to perform a contract is a breach of the contract.
2. Making it impossible for one's self to perform a contract is a breach of the contract.
3. In either of the cases cited above, the other party may abandon the contract and sue at once for damages.
4. Failure to perform one part of a divisible contract is not a breach of the entire contract, and does not excuse the other party from performance of the rest.
5. In case of a breach by failure to perform, the other party must show that he has performed his part, or was ready and willing to do so, before he can claim damages.

6. Where a contract has been partly performed by one party, the other party must carry out his part of it, unless the first party has refused to perform further, or the circumstances are such that he would not be able to perform the rest of it.
7. The party who broke the contract must be paid the reasonable worth of what he has done on it, unless his breach of it was wilful or the contract provided that he should have nothing unless he performed the whole.

§ 70. Remedies for Breach of Contract

The party who is injured by a broken contract may either (1) sue for damages, or (2) he may abandon the contract and sue for the value of his services or of the goods furnished.

The moment a contract is actually broken the other party has a right of action for damages, but there must be an actual breach. People are inclined to rush into court when they think that their contract rights are disregarded, without stopping to make sure that there has actually been a breach.

When parties to a contract agree on the amount that shall be paid in case of breach or default, such amount is called *liquidated damages*. The plaintiff in an action for breach of contract can sue only for profits proved to have been lost, and not for estimated profits lost. The jury would judge the amount of his actual loss from the evidence submitted.

Action for Breach of Contract. If an action for breach of contract is to be brought at all, it is best to do it as soon as possible after the contract has been broken, as the court may consider that a person has voluntarily surrendered his right if he waits too long, or possibly something may happen that will excuse the other party from performance. But there is one class of contracts in regard to which a great deal of care must be taken when bringing suit; these are contracts

where there are several parts entirely separate from and having no connection with each other. If it is perfectly clear that they are separate, a party would have a right to sue for a breach of one of the parts at once without affecting his rights under the rest of the contract. For instance, a breach of warranty in a contract would give a right to damages for that warranty without in any way affecting the rest of the contract.

Where one of the parties is prevented from performing a contract for personal services by, sickness or death, he or his estate may recover the value of what he has already done; and where a contract has been partly performed by one of the parties and the other party has received any benefit from what has been done, he must pay for it unless the breach was wilful and intentional.

When Specific Performance Can Be Had. There are some exceptional cases in which an action for damages would not be an adequate remedy for the injured party, and in such a case a court of equity will compel the first party to perform the contract.

In *Marsh v. Blackman*, Mrs. Marsh agreed with the two sons of Judge Blackman to take care of their father until his death for \$2 a week. They later notified her that they refused to perform the contract. The court said that it would be impossible to compute the damages with any certainty as their amount would depend on the length of Judge Blackman's life, and that it would therefore compel the two sons to carry out their agreement.² (See § 74, "Specific Performance.")

Instalment Contracts. But in contracts, for instance, which are to be performed by instalments, such as a contract to deliver 1,000 barrels of oil at the rate of 100 barrels a

² 50 Barb. (N. Y.) 329. (This is an old case, before the high cost of living became noticeable.)

month until the contract is completed, it is not perfectly clear whether a failure to deliver one lot of 100 barrels would be a breach of the whole contract or not. The courts in the various states hold different views on this question. If a party brought an action for damages at once, he might find himself cut off from any further damages in case of the other party's failing to deliver the rest of the oil; or if he treated the contract as broken he might find himself the one guilty of breaking it. The only safe thing to do in these cases is to consult a local lawyer.

When a contract is to be performed to the satisfaction of a party thereto or of a third person, such as an architect or an engineer, the work must satisfy the person designated, but, as a general rule, the court will hold him to what it considers reasonable.

Breach by Failure to Perform. A breach by failure to perform does not usually take place until the time for performance has passed. However, in contracts where goods are to be paid for in instalments, or rent is to be paid by the month, if the contract is an entire and not a divisible contract, failure to deliver one instalment or to pay one month's rent will be a breach of the entire contract. Where the contract is a divisible one, failure as to a separable portion is a breach of that part of the contract, and the party may sue on that while the rest of the contract is being performed.

It must be borne in mind that if the breach was of one provision of a divisible contract, the party suing must show that he performed whatever was due from him under that provision before he can claim damages for its violation.

A divisible contract is one in which the obligation consists of independent parts, not necessarily united, as, if one agreed to deliver 100 bushels of corn in March and 100 in April, or to deliver at the same time 50 bushels of onions and 25 bushels of potatoes. An agreement to do several things at

several times is divisible, unless the consideration to be paid is entire.

Breach by Refusal or Denial. Where the party positively refuses to perform, or denies the existence of the contract, an action may be brought at once for a breach of the contract. The other party does not need to do anything further on the contract himself, and, if he does do anything further, cannot recover anything for the extra work, for the plaintiff has no right to aggravate the damages. There must be, however, a positive refusal to perform under any conditions.

Time to Bring Suit. The party has always a right to ignore an intermediate breach and to wait until the time for final performance arrives before bringing suit; but if he does this he takes the risk that some other happening may discharge the contract before that time. If, on the other hand, he waits until the time for performance, he is entitled to all the damages which he has sustained up to that time. In any case professional advice should be secured and followed.

Notes:

1. Where there is a contract for the delivery of goods or the performance of work by instalments, and there is a failure to perform one of the parts of the contract as agreed upon, a party ought to consult a lawyer as to his rights before making any statements to the other party about it.
2. It is always a matter for serious consideration whether a breach of contract justifies a remedy so costly and uncertain as a suit at law. (See Chapter IV, "Law and Equity.")

§ 71. Law Governing Remedy

It has already been explained (§ 40) that a contract is interpreted in reference to the law of the place where it was made, unless the parties state that they intend it to be governed

by some other law; but if they specify some other law merely to evade the law of the place where the contract was made, the local law will govern despite their provision.

In bringing an action on a contract, the method of bringing it, the right to bring it, and the defenses that may be made to it, are all governed by the law of the place where it is brought, and defenses which may be made in some states cannot be used in others. The Statute of Limitations (§ 72) differs in the different states, so that a contract on which an action may not be brought in one state may be sued on in another if the party to be sued is subject to its jurisdiction.

Note:

1. The place to bring suit is a matter regarding which it is necessary to seek legal advice.

§ 72. Statute of Limitations

The Statute of Limitations is the law that specifies the time limit within which an action may be brought. For the sake of peace and in order to put some limit to the time in which rights of property, etc., can be upset by lawsuits, laws have been enacted in every state providing that after a certain length of time specified in the law actions may not be brought in the courts. These laws apply to all the various forms of actions, including those on contracts. If the contract is under seal, the law usually gives a longer time in which to bring action on it.

The Statute of Limitations begins to run, not from the date when the obligation was made, but from the date when payment is due. In cases in which demand is necessary before a party is liable, the statute begins to run from the time the demand was actually made. In the case of a checking account in a bank, the time on each check does not begin until demand is actually made or some act of the banker has dispensed with

it. If each of the parties has an account with the other, and if they clearly intended to balance these accounts against each other, the statute begins to run against the balance at the date of the last entry.

A written promise to pay the debt is sufficient to renew the contract and to furnish a new date from which the statute runs. A part payment of principal or interest of the sum due will likewise renew the contract.

Sometimes the Statute of Limitations provides that, after the time specified, the party shall have no further right of action. This means that the cause of action is dead altogether, and thus cannot be enforced anywhere. If the law of the state where the contract was made has such a statute, the contract cannot be sued on anywhere after that time has passed, because the statute is said to "go to the right of suit"; that is, it ceases to exist.

Usually, however, the Statute of Limitations merely "goes to the remedy"; that is, the cause of action remains, but the law does not allow the courts to enforce it after a certain time, and, if suit is brought after that time, the other party may plead that the law has barred the right of remedy. If, however, the other party does not plead the Statute of Limitations in such a case, the action may be brought, because it was passed only to protect him from the bringing of a suit at a time when he might not be able to get the evidence for his side, and if he is willing to fight the case on its merits he can do so.

Where the Statute of Limitations in the state where the contract was made affects only the remedy, it does not affect the contract; and the question as to whether the action may or may not be brought depends on the law of the state in which it is desired to sue. Therefore, a contract on which an action could not be brought in the state where it was made might be sued on and enforced in some other state where

a longer time is allowed by the Statute of Limitations for the bringing of the action, provided the other party lives there.

Note:

- I. It is right and just that if a party sleeps on his rights he should lose his cause of action, and that men should not have to fight stale claims.

REVIEW QUESTIONS

1. To take legal action against a person who has failed to perform his part of a contract, what must the other party show?
2. What is the rule as to time? What is "reasonable time"?
3. If a tailor was to have a suit finished on the 20th of the month and it was not ready till the 25th, could he hold his customer? How would it be if the customer had told him that he was to sail for Europe on the 21st?
4. If a person had agreed to sell 60 barrels of flour and 10 barrels of apples and only delivered the apples, could he collect the agreed price for the apples? Why? Suppose that the price of flour and apples had advanced at the time of delivery, how would that affect the situation?
5. If a person is working by the month and leaves ten days before the end of his period because he can get a better job, can he collect for the time he worked?
6. How soon is it best to bring suit for a breach of contract? What is to be considered before bringing suit?
7. What law governs the interpretation of a contract? Where may suit be brought? Why?
8. What is the Statute of Limitations and on what policy is it founded? Explain fully.
9. In the state in which you live:^a
 How soon must a crime be prosecuted?
 How soon must action be brought for a personal injury?
 How soon must action be brought on an oral contract?
 How soon must action be brought on an open account?
 How soon must action be brought on a written contract?

^a The data required will be found in the Revised Statutes of the State.

- How soon must action be brought to recover land?
 How soon must action be brought on a sealed contract?
10. State two ways of renewing a debt so that the Statute of Limitations will recommence to run.
 11. Give three ways that will prevent the statute from running against an ordinary debt.
 12. Define liquidated damages in relation to a building contract.
 13. If, by admitted breach of contract of A, B's business is stopped for a period, can B recover damages for profits estimated or only for profits proved to have been lost?

CHAPTER XII

ACTIONS ON CONTRACTS—GENERAL RULES

§ 73. Introductory

Besides the particular provisions of the law of the state where the action is brought, there are certain general rules which apply to actions anywhere.

Assigned Contracts. Where a contract, or a cause of action arising out of a contract, has been assigned, the party to whom it has been assigned must bring the action in the name of the party to the contract from whom he received it, unless there is a law allowing him to sue in his own name. This is the rule of the common law, but now in most states the party who has the actual interest in the contract is allowed to sue in his own name.

Joint Contracts. Where there is a joint contract, all the parties to it must be brought into the action; that is, if other parties are jointly interested with the party suing, he must join them with himself as plaintiffs. If, however, they refuse to join as plaintiffs, the law in many cases provides that they may be joined as defendants, in which case the party so joining them must explain that they refused to be joined as plaintiffs and mention the statute by which he is allowed to join them as defendants.

If several parties are jointly obligated to the plaintiff by the same contract, when he sues he must include them all as defendants. If any of the parties to the contract are left out of the suit, they are released from all obligations under it, unless they agreed in the contract to be liable individually for the whole contract apart from all the others.

Assumption of Legality. The law always assumes that a contract is legal and proper; therefore the person who asserts that it was illegal, or the result of fraud, undue influence, duress, etc., must prove the fraud or other allegation.

Notes:

1. The law of the place where the contract is made governs its interpretation unless the contract explicitly specifies otherwise.
2. The law of the place where suit is brought governs the right to bring action on it, and the defenses which may be made.
3. Where the Statute of Limitations of the place where the contract was made takes away the right of action, no action may afterwards be brought on the contract in any state.
4. In suing on a joint contract, all the parties must be joined, either as plaintiffs or as defendants.

§ 74. Specific Performance

There are some cases where damages do not repay the party for what he lost on the contract, as, for instance, if the contract was to buy some valuable work of art which he could not duplicate elsewhere. In contracts for the delivery of goods, where it is possible for the party to go out and purchase other goods of the same nature, his loss can easily be computed and covered by damages; but where it is impossible to compute the damages, or where the property purchased is a work of art, an heirloom, or something else which cannot be duplicated or easily purchased elsewhere, so that damages do not compensate him for his loss, the court will compel the other party to perform the contract. This is known as "specific performance," and is granted by what is termed a court of equity.

Land, with everything relating to it, is always regarded as having a peculiar value; so that a contract for the sale of land may always be specifically enforced.

In cases where the contract is for personal services, or cannot be carried out because the other party has disposed of the property involved, or for any other cause, the court will refuse to make a useless decree. In the case of personal services, it is not considered that any services which the other party might perform in order to escape imprisonment would be worth much. If, however, the other party has disposed of the property or otherwise put it out of his power to perform the contract *after* the suit in equity has been begun, the court of equity, contrary to its usual custom, will award damages.

Requirements of Courts of Equity. The party who brings a suit in equity must show that he has not been careless or negligent regarding his rights, but has insisted on them and promptly taken action to protect them. This carelessness and negligence are known in legal parlance as "laches," and, unless there is some excuse for them, will prevent the delinquent party from recovering in a suit.

The party who brings such a suit must also be able to show that he has been in all respects just and fair himself, and he cannot ask the court to enforce any contract which is in the slightest degree unfair to the other party. He must show, too, that he has done everything in his power to fulfil the contract on his own part, and, if the other party has prevented him from performing it, he must show the court that he was and is able and willing to do all that was required on his part.

A court of equity will not enforce an illegal contract, or one that has been obtained by duress, fraud, or undue influence. Nor will it enforce a contract that is unconscionable, or where an unfair advantage has been taken of another

party's ignorance or inexperience. (See Chapter IV, "Law and Equity.")

Notes:

1. No court will enforce a contract which is illegal or improper.
2. Specific performance is granted only where damages would not compensate the party for his loss.
3. Courts of equity will see justice done as nearly as possible, and therefore, the party who seeks their aid must be prepared to do justice himself.

§ 75. Rules of Evidence

Certain rules have grown up with regard to the admission of evidence before a court. Some of these rules have been dictated by convenience, in order not to take up the time of the court unnecessarily; others for the sake of being fair to both parties. Some of the rules of evidence particularly concern contracts.

An oral contract must be shown by testimony. The testimony of the parties themselves, and of any witnesses who were present and heard the transaction, is competent; but anything in their conversation or relations which has no bearing on the contract will be excluded. It often happens that contracts are agreed upon between the two parties, and each remembers only the part that favors himself, and in such a case a court cannot give any relief, because the evidence balances. Where it is not possible to prove the making of the contract itself satisfactorily, evidence that the party in some way acknowledged or ratified it, or that he has partly performed it, may be introduced to show that there was such a contract.

Competent evidence is that which is admissible.

Material evidence is that evidence which applies directly to the point at issue.

Relevant evidence is evidence relating to the matter in dispute. "Whatever naturally and logically tends to establish a fact in issue is relevant and that which does not answer requirements is not."¹ Irrelevant evidence lacks close connection with the fact to be proved: is collateral to the issue.

The general rule that hearsay evidence is excluded, is based on the principle that a witness may testify under oath as to what he himself has seen or heard, but that there is no value in a man's taking oath as to what another, not under oath, has told him.

The Burden of Proof. The burden of proof is always on the party who makes an assertion; thus many cases fail, not because the party is in the wrong, but because he cannot prove his case. Judges and juries can act only on evidence brought before them, and if a case is good but there is no evidence to prove it, a court cannot give relief, and the law should not be blamed for it. This is why written contracts are so important. (See §§ 42, 43.)

The Parol Evidence Rule. The meaning of this rule is that other evidence will not be admitted to vary the terms of a written contract, because the contract itself is the best evidence of what its terms are. Oral evidence may always be introduced to support the contract. Necessarily, the performance of the contract, or a breach of it, will have to be shown by oral testimony. The same is true of abandonment of the contract; and anything which would show adequate motive may be introduced as tending to support the proof of the abandonment.

There are exceptions to the parol evidence rule. Where the contract is not clear in itself, it becomes necessary to resort to parol evidence to explain it. Any other paper or matter to which the contract refers may be proved in connection with it, and, if such paper shows on its face that the

¹ Jones on Evidence, Vol. I, Sec. 135.

transaction outlined was not complete, the whole transaction may be proved. Oral evidence may always be introduced to show fraud, duress, undue influence, or illegality in the contract. The rules of evidence may even be stretched in such a case to allow the proof of other transactions not directly connected with the contract under consideration, tending to prove a fraudulent contract.

Admissions. A party will never be allowed to use his own statements and acts unconnected with the actual contract or the transactions leading up to it, to prove that there was a contract, or that what he claims as to its terms is true, but he, however, may prove anything which the other party said against his own interest, and must also show any other statements made in connection with the admission which might have limited its effect.

Where a party employs an agent to deal for him, any admission against the employer's interest which the agent made at the time of, or during the transactions leading up to, the contract, may be used against the employer; but not admissions which the agent made *after* the execution of the contract.

Books of Account. Books of account regularly and fairly kept as books of original entry supported by oath are admitted as prima facie evidence of the entries therein contained.²

If the clerk who made the entries is dead his handwriting may be proved.

The rules in regard to admitting books of account as evidence are as follows:

1. They must be regularly kept in due course of business.
2. The entries must be made by the party or an authorized clerk at or about the time of the transactions.

² Jones on Evidence, Vol. III, § 567.

3. The books must be identified by oath.
4. The entries must be pertinent to the issue.
5. The books must come from proper custody.

These rules apply only to books of original entry, not to ledgers and other books footed from original entries.

The books of a deceased person may be used as evidence both for and against him. The books, however, must first be properly proved by the clerk who made the entries or by someone who can testify as to the handwriting of the deceased.

Transactions with a Party Later Deceased. In order to protect estates against fraud, where a person is suing to enforce a contract against the executor or the administrator of a person who is dead, he will not be allowed to testify to any transactions with the deceased person, where there were no other witnesses present to testify as to what the deceased person said or did. This is very important to remember, because, in the case of an oral contract where no witnesses were present, the party who is still living might not be able to prove the contract at all; and this is another reason why all contracts should be reduced to writing.

Notes:

1. The burden of proof is on the party who makes an assertion.
2. Any evidence, in order to be introduced, must have some direct bearing on the contract itself, or on the transactions connected with its making and discharge.
3. Parol evidence cannot be introduced to vary the terms of a written contract except in case of fraud, duress, undue influence, or illegality; or where the contract is not complete in itself or its terms cannot be understood without reference to outside circumstances.

4. A party cannot use his own words and acts as evidence in his favor; but his admissions against his own interest may be used against him.
5. A party may not testify to his transactions with a deceased person where no other witnesses were present.

REVIEW QUESTIONS

1. What is the rule as to actions where there are joint parties to a contract?
2. Does a person bringing suit have to prove that the agreement was fair and that the defendant went into it voluntarily? Why not?
3. When can a person be compelled to carry out a contract? In what court would such a suit be brought?
4. Can you give three "rules of equity"?
5. What is the difficulty in proving oral contracts?
6. In a suit who has the "burden of proof"?
7. What is the rule as to parol evidence? What exceptions to this rule?
8. What is the rule as to transactions with a man who has since died?
9. What is an admission?
10. What is meant by the rule, "Hearsay evidence is excluded"? Illustrate.
11. What is relevant evidence?
12. What is competent evidence?
13. State the rules as to admission of books of account as evidence in court.
14. When are books of account of a deceased person admissible evidence?

CHAPTER XIII

TENDER OF PAYMENT OR PERFORMANCE

§ 76. Definition

When a person is prevented by the other party to the contract from carrying out his part of it, he may make sure of his own rights under it by *tendering* (that is, *offering*) to pay or to perform. The offer must be made by the party himself, or by someone he has authorized, at the time the contract was due to be performed, and either at the place specified in the contract for goods, etc., to be delivered, or directly to the other party or any agent he has appointed to receive them. For instance, if the other party had ordered goods to be delivered to a railroad company, the goods might be offered to the railroad as an agent authorized to receive the goods. It is safer, however, to offer them to the party himself, as then no question can arise as to the validity of the tender.

Where there are bulky goods, the person desiring to make the tender may ask the other party to name a place where they are to be delivered, and, if he fails to do so, may notify him that the goods will be delivered to him at a certain time and place most convenient for that other party. Then delivery at that time and place will be good tender although the other party is not there to receive the goods.

§ 77. Time to Tender Performance

The tender must be made at the exact time specified in the contract, and before sunset on that day, in order to give the other party a chance to examine the goods, etc. A tender

before the time for performance has arrived does not meet the requirements for a tender and will not save the rights of the party making it. If the contract specifies "on or about" a certain day, or "within" a certain time, a tender made a few days before the day set would be good. If a party cannot make the tender before sunset because the other party has remained away all day, he may make it as soon as the other party returns.

If a party positively states that he will not accept a tender under any circumstances, or has the party making it put off his premises, or refuses to hear him, it is not necessary to make the offer. The party from whom tender is due may explain to the court, and will be excused. Unless it is absolutely certain that it will be impossible to make a tender, however, the party should at least try to make it. Only the absolute certainty that the attempt would be useless will excuse him.

§ 78. Extent and Kind of Tender

The exact amount of goods or money called for by the contract, including any interest due, and, if the other party has begun an action or suffered any damages, his expenses or the damages due, also must be offered. If it is money, the party should take care that it is in "legal tender." This really means, as a usual rule, that too much small change should not be offered. Five-cent pieces are a legal tender up to \$5 and not over, while silver coins less than one dollar are a legal tender up to \$10 and not over. United States treasury notes, gold coins, and silver dollars are a legal tender to any amount. Ordinary bank notes are not legal tender, but, unless objected to at the time, a tender in bank notes would be good.

If it is not possible to ascertain the exact amount, the party should take care to offer more than enough, as too little will not make a good tender.

If the contract called for services, the tender will consist of notifying the other party that the party is ready and willing to perform the services whenever required.

A tender must be made unconditionally. The party must simply offer what is due without calling for anything in return, not even a receipt or change, or it is not a good tender. In all cases the party making the tender should be accompanied by a competent witness.

A tender is held to be vitiated by coupling it with a demand for a receipt for the sum offered, unless, as is the case in a few jurisdictions, a statute exists which allows the demand for a receipt.¹

§ 79. Acceptance of Tender

If a party keeps property or money that has been left with him after he has had a sufficiently long time to examine and refuse it, it amounts to an acceptance of the tender. If he refuses to accept, the party making the tender may take the goods or money away, and inform the other party that he will hold them subject to his orders; he will then keep the goods or money separate from his own property and ready at all times for the other party if he calls for them. If the money is deposited in a bank, it must be put in a separate account and not drawn upon.

REVIEW QUESTIONS

1. What is "tender" in legal phraseology? When must tender be made? What will excuse tender?
2. To whom may tender be made, other than to the contracting party himself?
3. What is the rule as to the amount tendered?

¹ 38 Cyc. 154.

4. What constitutes acceptance of tender?
5. What kinds and amounts of money are "legal tender"?
6. What proofs should be secured of fact of tender? Can a receipt for the amount paid be demanded?
7. If tender is refused, what may party making tender do?

CHAPTER XIV

JOINT AND SEVERAL CONTRACTS

§ 80. Contracts Made by More Than Two Parties

Very frequently we find contracts to which there are more than two parties; and these may be of two kinds, namely, what is known as a *joint contract*, in which all the parties on one side agree to be liable together for what is promised in the contract, each one being bound for the whole; or a *several contract*, where each of the parties agrees to be separately liable for his part. In some cases parties agree to be both jointly and separately liable, and then the person with whom the agreement was made has his choice of holding all of them liable together or each one liable separately.

It is unwise to become involved in a joint contract. Where the parties to a joint contract are liable:

1. Each is liable for the whole.
2. They must be sued together, not separately.
3. Where one dies he drops out, and the remainder are liable. If all died, the estate of the last decedent would be liable.
4. If one party is released, all are released.

Where the contract itself does not expressly state whether the parties are to be liable separately or all together for the whole contract, the court decides the nature of the contract from the probabilities of the case. If the promise by two or more is in the plural, the contract will be held joint, unless by the whole agreement the intention appears to hold them severally. For instance, the ordinary subscription agreement

is a several, not a joint, contract, and no one would imagine that each party who signed expected to be held liable for the whole amount to be raised.

Where, instead of being an agreement by several parties to do something, the agreement was to do something for the benefit of several parties, the test as to whether it is a joint or a several contract is whether the agreement has to be performed for all of them together, or whether it can be performed for each one separately. Wherever two or more are jointly to benefit by a contract, (1) all must join to bring suit on the contract; (2) if one dies the survivors have the legal right to sue. If it is a contract made to a corporation, the corporation will be regarded as one person; but all the members of a firm will have to join in any suit on such a contract.

If, on the contrary, it is an agreement to perform services for several persons as individuals, it usually amounts to a separate agreement with each of the individuals, and each of them may bring suit to enforce the agreement with the first party without paying any attention to the other persons.

Where there is more than one person on either or on both sides of a contract, it should be stated in the contract whether their obligation is joint or several, or whether the obligation to them is jointly or severally. To do so will save much trouble in enforcing the contract, as, if a person brings suit on a joint contract against one person only, he releases all the rest of them from their obligations; while, if it were a several contract, he may bring suits against one after the other until he has managed to collect the entire amount due him.

If one of the parties to a joint contract pays the whole obligation, he may collect from the others who were bound with him their proportion of the amount he had to pay.

Notes:

1. Where it was clearly not the intention of the parties to be liable for each other, the contract is several.

2. Where their interest is identical and in the whole contract, it is joint.
3. Where they intend to be both jointly and severally liable on the whole contract, the contract is joint and several.
4. A joint contract must be enforced by or against all of the parties to it.
5. A party to whom others are jointly and severally liable may sue all of them together, or he may sue one at a time.

REVIEW QUESTIONS

1. What is a joint contract? May more than two parties contract severally?
2. What is the liability of a person who is party to a joint contract?
3. If two or more parties sign a bond beginning "We, the undersigned, are held and firmly bound," etc., what kind of contract is it?
4. A note begins, "Ninety days after date, we or either of us, promise to pay," etc. What kind of contract is it?
5. Distinguish between a joint and a joint and several contract.
6. What may a person do who has been forced to pay the whole amount on a joint contract?
7. Give examples of contracts that are either joint, several, or joint and several.

PART III

SALES

CHAPTER XV

CONTRACTS TO SELL¹

§ 81. Sales and Contracts to Sell

A sale is a completed transaction. The ownership of the goods has passed from the seller to the buyer, even though the seller may still hold the goods in his possession and the price may not yet have been paid.

There is no substantial difference between a sale and an exchange or barter, and the term "sale" is frequently applied to the latter transaction. But a technical sale is a transfer for a consideration in money, while an exchange or barter is a transfer of property for other property.

A contract to sell means that the ownership of the goods is to be transferred at some time in the future.

The definitions given in the Uniform Sales Act are as follows:

A sale of goods is an agreement whereby the seller transfers the property in goods to the buyer for a consideration, called the price.

A contract to sell goods is a contract whereby the seller agrees to transfer the property in goods to the buyer for a consideration, called the price.

The distinction between a contract to sell and a sale is this: in a contract to sell the goods are not delivered and title does not pass; while in a sale delivery is made or the title passes. A contract to sell is an executory contract. A sale or a bargain and sale is an executed contract. A sale is the transfer of the property or the thing from the seller to the buyer for

¹For forms of sales contracts, see Chapter CI, Forms 20-25.

a price. The Statute of Frauds applies only to contracts to sell. (See § 102.)

§ 82. Uniform Sales Act

On account of the confusion of the law in regard to commercial transactions, commissions have been appointed by the various states to unite in working out uniform laws governing such transactions. Largely as a result of the activities of these commissions, two laws have been passed by many states: (1) The Uniform Negotiable Instruments Law has been adopted in all of the states and territories with the exception of Georgia and Porto Rico. (2) The Uniform Sales Act has been adopted in the following states:

Arizona	New Jersey
Connecticut	New York
Idaho	North Dakota
Illinois	Ohio
Iowa	Oregon
Maryland	Pennsylvania
Massachusetts	Rhode Island
Michigan	Tennessee
Minnesota	Utah
Mississippi	Wisconsin
Missouri	Wyoming
Nevada	Territory of Alaska

The object of these acts is not to change, but to combine, the best features of the existing laws of the different states. In some cases the states have adopted these acts with slight modifications, but for all practical purposes the law is uniform.

§ 83. What Is Necessary to the Contract of Sale

A contract of sale (or contract to sell) must have the same elements as any other contract. In other words, there must be:

1. Parties who are competent to contract.
2. An agreement between those parties.
3. Consideration for the agreement.
4. A legal contract.
5. A subject matter.

These elements have all been explained at length in the preceding chapters relating to contracts in general. (See Part II.) A few peculiarities which concern sales alone will be taken up in the following sections.

Note:

1. A sale is completed when the goods are transferred, but, if the buyer was not competent to make a contract, or the contract was illegal, the seller could not collect the price.

§ 84. The Agreement

This has been fully explained under contracts (§ 42). In the sale and in the contract to sell, there must be the proposal of terms on the one hand, and the acceptance of those terms on the other.

Notes:

1. To make a legal sale, there must be an agreement of the parties *which can be proved*.
2. A written contract signed by both parties is the best evidence of such an agreement.
3. A letter making an offer, which is accepted by another letter; is the simplest form of written contract.

§ 85. Sales to Persons Incompetent to Contract

The rules which have been laid down under the subject of contracts (§ 38) with regard to the contracts of certain persons who are by law made incompetent or are given only a qualified power to contract, apply also to the contract of sale.

The exception to the rules laid down, is an *actual sale* of (not a contract to sell) necessities. A person who sells necessities to a person who is not competent to make a contract may recover a *reasonable price* (not necessarily what he asked) for them. The Uniform Sales Act says that the goods must be necessary *at the time they are delivered*.

If a merchant furnishes necessities to a married woman or an infant, he may charge them (1) to the woman or the infant, or (2) he may charge them to the husband or the father. He cannot charge them to both. He must make his choice and afterward bring suit against the party charged.

In this country necessities include only food, clothing, and shelter of a grade suited to the means of the person to whom they are furnished; and in this connection it is well to bear in mind that such things as riding horses and automobiles are not necessities.

Notes:

1. In supplying necessities to a minor or married woman the merchant should inquire (1) whether the incompetent person is already provided; (2) whether he or she has any property from which a claim for necessities could be collected.
2. If the incompetent person is an infant or a married woman, and the merchant desires to charge the amount to the father or the husband, he should inquire as to his credit.

§ 86. The Consideration

A sale or a contract of sale which did not name a price might still be good, because the court which was asked to enforce it would assume that the goods were to be paid for at a reasonable price and charge the buyer accordingly. The price fixed may be dependent on outside circumstances that would affect it, as for instance the market price at the time and place of delivery.

The general question of consideration has been very fully discussed under "Contracts" (§ 44).

Note:

1. Parties in making a sale should agree on the price. Neither the seller nor the buyer may be satisfied with what the law will consider reasonable.

§ 87. Nature of Subject Matter

A person might make a contract to sell a crop which he had just planted, or grass which might grow in the future on land which he owned, or chickens to be hatched from eggs which his hens might lay; but if he had not the land or the hens, he could not make a contract to sell grass on land which he might buy in the future, or eggs from hens which he might later acquire.

Goods which are already in existence and in shape to be delivered may be contracted to be sold, and also:

1. Goods which still require some process to render them ready for delivery; i.e., cloth to be made by a tailor into a suit.
2. Goods to be acquired by the seller in the future; i.e., a commission merchant selling so many dozens of eggs which he has yet to buy from the producer.
3. Goods which may or may not be acquired by the seller in the future, depending on the happening

of some condition; i.e., the same commission merchant selling so many dozens of eggs provided that he can obtain that number from the producers.

4. An undivided share in goods; i.e., a tenth part of a crop of wheat.
5. A definite number, weight, or measure of goods in mass; i.e., a bushel of oats out of a bin of oats.

Under the Uniform Sales Act, the goods mentioned in 1, 2, and 3 cannot be the subject of a sale, but only of a contract to sell, since they are not yet in shape to deliver.

§ 88. Destruction of Subject Matter

When the goods which the seller is offering for sale have been entirely destroyed without his knowledge at the time the agreement is entered into, the contract of sale does not take effect. When they have been partly destroyed, the buyer may refuse to take any of them, or he may take those which are left and pay the full price which was agreed upon. In the last case, if the price was divided up, as so much a quart, a barrel, etc., he may pay for what he gets. If there was one lump price named for the entire lot, he must pay the entire amount, because the court will not attempt to split it up for him. To do so would be to make a new contract for the parties.

If there has been an actual sale and the ownership of the goods has passed to the buyer, the loss falls on him if they are destroyed without fault of the seller, even though they remain in the seller's possession. If the ownership still remains with the seller, the loss would fall on the seller, wherever the goods may be, even though on their way to the purchaser.

Goods are sometimes sold with the privilege of returning if not sold at a certain time. In such a sale the title passes and in event of destruction by fire, the buyer would lose. The agreement to take the goods back is a condition subsequent.

The case is to be distinguished from that in which the goods are sent on consignment. (See § 93.)

Where the contract was not for any specific articles, but only for so many feet of lumber, bushels of wheat, etc., the destruction of the wheat or lumber which the seller had at the time the contract was made would not excuse him from performing it. He must go out and buy more to replace what was lost.

Note:

1. The agreement of sale should be very definite as to the time when the ownership is to pass from the seller to the buyer. Much may depend on this fact.

§ 89. Sales to Arrive

Contracts are made at times for the sale of specific goods to arrive on a named ship. This arrival is a condition precedent. If the goods do not arrive, or if they arrive on another ship, the contract is nullified.

§ 90. A Contract of Sale Must Be Legal

Every contract must be legal to be enforceable. A contract for the sale of liquor in a prohibition state could not be enforced, and, if liquor had been sold, the seller could not recover the purchase price. This is also true where a license is required to sell any particular commodity. An unlicensed seller could not collect. (See general discussion of illegal contracts, §§ 39, 57.)

Note:

1. Where there has been an illegal contract, the courts will leave both parties just where they found them, and refuse to help either.

REVIEW QUESTIONS

1. Distinguish sale and barter. Distinguish between a sale and a contract to sell.
2. Why is it important to know whether a particular contract is an executed or an executory sale?
3. Why are uniform sales laws desirable? Has the Uniform Sales Act been adopted in your state?
4. Can there be an executed sale of articles not in existence?
5. When a seller ostensibly makes a present sale of goods which are not then in existence, what is the effect on the contract?
6. If goods sold are partly destroyed at time of sale, what right has the buyer?
7. If the sale had been executed before the damage happened, what would be the rights of the parties?
8. Give meaning and legal effect of a sale to arrive.
9. B made sales, without a license, of kerosene and liquor. Can these accounts be enforced against the customers?
10. A, a retailer, bought goods of B with the understanding that unsold goods would be taken back at the end of the season. Fire destroyed the goods without fault of A, while in A's possession. Who bears the loss?

CHAPTER XVI

PASSING TITLE

§ 91. Delivery

In a sale—not a contract of sale (see § 81)—the delivery is made at the time, and there is no question in regard to the passing of title from seller to purchaser. The delivery may consist in merely setting aside the goods for the new owner, but the title passes, and, if the goods are afterwards destroyed, the loss is the purchaser's. In one case delivery consisted in giving the purchaser the key to the building where some machinery was stored.¹

A flood or a railroad accident which delays the delivery of goods is not an excuse for failure to perform a positive contract. It is a general rule that, where an engagement to do a certain thing is positive in its terms, an accident, or change of conditions, will not excuse performance. The Japanese, it is said, look at this matter exactly the other way, and say that if conditions change after a contract has been made it would be unjust to compel performance.

§ 92. Selection Necessary to Delivery

It is impossible to transfer the ownership of goods that have not been identified or set aside. A contract to sell an automobile of a certain make does not transfer the title to any automobile until a particular automobile has been designated as the subject matter of the contract. The precise article or articles that are to constitute the subject matter of the sale must be agreed upon. This means that the subject

¹ Kellogg Newspaper Co. v. Peterson, 163 Ill. 158.

matter of the sale must have been selected. Usually the selection is made by the buyer, but in some cases the buyer directly or indirectly authorizes the seller to make the selection for him.

In the case mentioned in heading 4 under § 87, where there is the sale of an undivided interest in goods, no actual delivery or selection is necessary. By the sale, the purchaser acquires whatever the seller's rights were in the whole. If the seller had the right to have his share taken out of the mass, the buyer would have the same right; if the seller had a right to a proportionate share only in the price received when the goods were sold, the buyer would get only the same right. The time, present or future, when the title will pass depends on the agreement.

In a contract to sell, the time for the title to pass depends on the contract; if the intention of the parties is clearly expressed, it passes at the time they have fixed upon. The rules given in the next section will determine when it passes in case the intention is not clearly expressed.

Note:

1. Any act which the parties intend to represent delivery of the goods will be a sufficient delivery. If a suit of clothes has been selected and set aside for the purchaser, it becomes at once his property.

§ 93. When the Title Passes

The following are rules for determining the intentions of the parties as to the time at which the title passes, i.e., at which the buyer becomes the owner:

1. Where goods are picked out and are in the shape in which they are to be delivered at the time the contract is made, the buyer becomes the owner at that time.
2. When the goods have to be picked out, or something

further remains to be done to them before they can be delivered, the buyer does not become the owner until that is done.

3. When a contract is made to sell a certain number, weight, or measure of goods, or goods to be acquired in the future by the seller, the buyer becomes the owner after goods answering the description in the contract are turned over to him, or he takes possession of them.
4. (a) When goods are delivered "on trial," or "on approval," the buyer becomes the owner upon their delivery. He may, however, cease to be the owner and make the seller again their owner by returning them or notifying the seller within the time specified in the contract, or a reasonable time if none was specified, that he will not accept them.
(b) When the buyer lets the time fixed for the return of the goods pass without returning them, or keeps them beyond what is a reasonable time under the circumstances, or signifies his approval and his intention to keep them either by words or acts, he becomes their permanent owner.
5. If the agreement requires delivery to the buyer at a particular place, or payment of freight to the buyer or to a particular place, the title does not pass until the goods have reached the buyer or the place agreed upon.
6. When goods are to be manufactured the title does not pass until they are completed and delivered to or accepted by the party who ordered them.
7. If goods are ordered and shipping directions are given, delivery is made when the goods are delivered to the railroad or other means of transport. After that they are the property of the buyer.

Note:

1. A contract to sell should specify precisely when title to the goods is to pass.

§ 94. Sales Without Delivery

Whether or not there has been a legal delivery such as described in § 91, it is always a risk to leave property in the seller's possession. In those states where the Uniform Sales Act has been adopted, the law makes a seller who has the goods left in his possession the agent of the buyer to sell, pledge, or otherwise dispose of them. The very fact that the property is in the possession of the seller is likely to mislead innocent third parties who have no notice of the sale. If the seller was dishonest enough to sell the property again, there would be no chance of recovering it from any third party to whom he sold or pledged it. This is likewise the case in California, Colorado, Kentucky, Maine, Montana, Oklahoma, South Dakota, Vermont, and Washington. The laws in the states enumerated above regard leaving the property with the seller as opportunity for fraud on other persons; hence the party who so left the property must lose, if the goods are sold to an innocent buyer. This is just, as, if a man has property in his possession it is fair to assume that it is his, and if he sells it again, the new buyer should be protected.

In other states, the court will presume that leaving the property with the seller amounts to a fraud, but the first buyer may prove that the sale to himself was a real one, made in good faith, and not a mere sham for the purpose of cheating anyone, and in this way may recover his property. If it can be shown in any case that there was no real sale, but only a pretended one, a creditor of the seller may treat the goods left with the seller as belonging to the latter and levy on them in payment of his claim.

Where for any reason possession is to be left with the seller, the only safe method for the buyer is to take a formal bill of sale and to file it on record in the proper office of registry for the locality.

Notes:

1. If a sale is made the seller should not keep the goods.
2. If the seller is allowed to keep the goods and sells them to an innocent buyer, the first buyer ordinarily loses.

§ 95. Conditional Sales

It is possible for the seller to give the purchaser possession of the article that has been sold, and still to retain the ownership himself until the full price or a certain amount of the price has been paid. This can be done only by agreement, however, and where sales are made on the instalment plan it is very common to provide in the agreement of sale that the ownership shall not pass from the seller to the buyer until the last instalment has been paid. Such sales are known as "conditional sales."

The law always enforces such an arrangement as between the buyer and the seller. For the sake of ready proof and avoidance of misunderstandings, the contract should be in writing and must be so expressed in many states. A common plan is for part payments to be made as rent, with a proviso that the title passes to the purchaser when the last instalment is paid.

The difficulty arises from the fact that, as the buyer has the property in his own possession, third persons are likely to be misled into believing that he owns it and has the right to dispose of it. Most of the states get around the difficulty by providing that the seller must file the contract in an office of public record. Everybody is then required to know that it exists, as in the case of a mortgage. If the seller does not

put the contract on record, and the buyer is dishonest enough to dispose of the property to a third person who had no knowledge of the seller's rights, the seller loses the property in the majority of instances.

§ 96. State Laws on Conditional Sales

In the following states conditional sales are good against third parties without acknowledgment or filing in any public office:

Arkansas	Nevada
California	Rhode Island
Idaho	Tennessee
Indiana	Utah

The District of Columbia, Massachusetts, Oregon and Louisiana have substantially the same law with a few exceptions.

In the following states the contract recorded is merely signed by the purchaser:

Alabama	Montana
Kansas	New York
Maine	Oklahoma
Maryland	Texas
Minnesota	Vermont
West Virginia	

In some of these states more formality is required if the contract is for the sale of railroad equipment.

Those states which demand a record require different formalities in order to permit the contract to be put on record.

§ 97. Requirement of Affidavits to Conditional Sales Contracts

Some states require an affidavit by the seller stating certain facts of the sale. These are Michigan, Nebraska, New

Hampshire, Ohio, Pennsylvania, and Wyoming. In others, if the signature to the contract is attested by a witness, the witness may prove it, and it is then admitted to record; very few of the states require that the contract shall be acknowledged in person by the buyer. Colorado, Connecticut and District of Columbia require acknowledgment where the sale is over \$100 in amount. In Iowa it may be acknowledged by either the seller or buyer and is then entitled to be admitted to record; while in Florida the seller must acknowledge in person, or his or its signatures must be proved by one of two subscribing witnesses.

§ 98. Rights in Illinois and Pennsylvania

In Illinois the rights of the seller under a conditional sale will not hold against a third party to whom the buyer may have sold the goods. The seller may protect himself, however, by taking a chattel mortgage on the article sold and recording that. In Pennsylvania where the property is not attached or to be attached to realty, the seller makes a contract to lease the property, the purchaser to pay a regular rental instead of instalments and to give back the property at the end of the rental period. Then a clause is added giving the purchaser the right to elect to keep the property instead of returning it at the expiration of the lease. Where the property covered is attached or to be attached to realty, then either a conditional sale contract or a lease with option to purchase may be used, but it must be recorded with an affidavit.

§ 99. Protection Against Landlord's Lien

In those states where a landlord has a lien on property in rented buildings, the contract of conditional sale should be recorded before the property is moved into the building in order to protect it against his lien.

If fixtures such as gas and electric chandeliers, etc., are

sold under a contract of conditional sale, they will be protected by recording the contract and may be removed as readily as any other personal property. If, however, the property sold was afterwards attached to the building itself and could not be removed without injury to it, such as a mantel or built-in china closets and book-shelves, the only remedy which the seller has is to claim a lien against the building for the amount due him.

§ 100. Protection Against Destruction of Property

Where the property is destroyed while it is held under a contract of conditional sale, the decisions are in conflict. In some states the buyer loses; in others the seller; and in other states the matter has not been decided. Usually, under such circumstances, the buyer refuses to make further payments but may be held liable for the value of the goods. Unless the buyer can afford such a possible loss, it is prudent to provide for insurance.

Notes:

1. If a sale on condition is to be made, and the value of the article justifies it, a lawyer should be employed.
2. If articles are to be sold on instalments in different states, the laws of each must be considered and much care will be required in making the contract.²

REVIEW QUESTIONS

1. When does title pass in "a sale"?
2. When does title pass under a sale "on trial" or "on approval"?
3. When does title pass when goods are manufactured under order?

² The standard authority on this general subject is Haring's "Conditional Sale Laws," published by the author, Fred Benson Haring, Buffalo, N. Y.

4. When does title pass when goods are ordered to be shipped by rail?
5. If the buyer desires to leave the goods he has bought with the seller, how can he protect his title?
6. If the buyer after taking title leaves the goods with the seller, who sells them to a third party, does the third party take good title in your state? What recourse would the original buyer have?
7. How can the seller part with possession and yet keep title? What is such an arrangement called?
8. In your state what is the law as to conditional sales?
9. In your state if a farmer bought a binder on instalments and it was burned down when he had paid but half the purchase price, whose would the loss be?

CHAPTER XVII

THE STATUTE OF FRAUDS

§ 101. Description of the Statute of Frauds

The English law known as the Statute of Frauds was passed in 1676. Part of this famous law has been examined in § 48. The part we are here concerned with is the seventeenth section, which in some form has been enacted in most of the states and is as follows:

No contract for the sale of any goods, wares and merchandise, for the price of ten pounds sterling or upward shall be allowed to be good; except the buyer shall accept part of the goods so sold and actually receive the same, or give something in earnest to bind the bargain or in part payment, or that some note or memorandum in writing of the said bargain be made, and signed by the parties to be charged by such contract or their agents thereunto lawfully authorized.

The Statute of Frauds applies to contracts to sell, not to sales.

"Goods, wares and merchandise" are held in this country to include all that is usually classed as personal property, goods, chattels, and *choses in action*, i.e., accounts, claims, contracts, stocks, and securities.

A contract for the sale of corporate stocks or bonds is good if some memorandum is made by the broker before suit is brought.

§ 102. Contracts to Sell

The definition in the Uniform Sales Act is given as follows:

A contract to sell goods is a contract whereby the seller agrees to transfer the property in goods to the buyer for a consideration called the price.

The distinction between a contract to sell and a sale is this: in a contract to sell, the goods are not delivered and title does not pass; while in a sale, delivery is made or the title passes to the purchaser.

§ 103. When the Contract of Sale Must Be in Writing

The Statute of Frauds discussed in § 101 applies to contracts of sale where delivery is to be made later and where the value is over a certain amount. This amount ranges from \$30 in Arkansas, Maine, and Missouri, to \$500 in Arizona, Massachusetts, New Jersey, Rhode Island and \$2,500 in Ohio. Fifty dollars is usual.

The words "in value" apply where the Uniform Sales Act has been passed. In the old statute, the words were "in price." The price is the amount fixed by the parties themselves; the value, what the goods are actually worth in the market. For this reason, contracts purely by word of mouth have become more risky under the Uniform Sales Act. In order that a contract of sale above the limited amount may be enforceable, a written memorandum of the terms of the agreement must be signed by the party against whom it is sought to enforce the contract, or his agent.

The written memorandum of sale required by the Statute of Frauds need not be formal. It may be a note, a letter, a telegram, a receipt, or may consist of several papers so connected as to make an intelligible sales-contract. The written memorandum of sale need not be made at the time of the contract, but it must state all the material facts, the parties, the price, if a price was agreed upon, and specify the articles to be sold. It must be signed by the party, or by the agent of the party whom it is desired to hold. In states where the Uniform

Sales Act does not prevail, the written memorandum of sale may have to be subscribed; that is, signed at the end of the contract.

Exceptions to the rule that a sale of goods above the limited amount must be in writing, occur: (1) when the buyer has paid part of the price, or (2) where the buyer has accepted and actually received part of the goods. The last two methods of satisfying the statute will be considered in the following sections.

Notes:

1. Any contract of sale above the specified minimum must be in writing.
2. All contracts should be in writing.

§ 104. Exception for Part Payment

A payment made at the time of entering into the contract of sale makes it enforceable, though it may be above the limited value. The payment may either be a part of the price, or something given or paid to "bind the bargain." This should, strictly speaking, be in addition to the purchase price. In England this earnest is no part of the price of the goods. Usually in this country it is part of the price. The amount is not material.

The thing delivered in part payment must be of some value, but if of any value at all, it will be sufficient to bind the bargain.¹

Note:

1. Part payment will bind the bargain, but it is no evidence as to time, terms, and essentials of the agreement, and it is a poor substitute for a written contract.

¹ Weir v. Hudnut, 115 Md. 525.

§ 105. Exception for Part Delivery

The second case mentioned in § 103 was: "Where the buyer has accepted and actually received part of the goods." The word "received" means taken into actual physical possession, the word "accepted" means that the buyer must have determined in his own mind to become the owner of the goods. Both conditions must be fulfilled to make the contract enforceable. The buyer may show his consent to become the owner of the goods either by his words or by his conduct.

The "part of the goods" must be taken out of the actual amount of the goods to be delivered. Samples or specimens which do not come out of the buyer's share are not "part of the goods."

If the buyer has directed the goods to be delivered to a railroad company for transportation, a delivery to the railroad company is a delivery to him and their receipt for the goods will be his receipt. If he has not so directed, there is no receipt and acceptance until the buyer or his agent accepts the goods from the railroad company.

Note:

1. Although he may have accepted the goods, the purchaser could still dispute the price, the warranties, and the other terms of the agreement. The written contract is the only dependable means of proving the agreement.

§ 106. Exception for Amounts Below Specified Value

Contracts of sale below the minimum established by the law need not be in writing. If the transaction were below the value set in any particular state, suit could be brought on an oral contract; i.e., a contract not in writing. If it were proved, it could be enforced, but an oral contract is always hard to prove. (See § 46.)

If the contract of sale is above the minimum value, suit cannot be brought upon it unless it is in writing. If the parties to such a contract (not in writing) carry it out, it becomes an executed sale and stands, as does any other sale, but if either party refuses to carry it out, the other cannot enforce it at law.

A single contract for the sale of a number of articles, each of which is below the limited amount in value, must nevertheless be in writing if the value of all together is greater than the limited amount.

Notes:

1. It is safest to make all contracts in writing.
2. Any contract of sale above the specified minimum *must* be in writing except in cases of part payment or part delivery. Any contract of sale below the minimum *should be* in writing.
3. It is never safe to enter into any contract without some memorandum in writing. Especially is this true when there is anything indefinite about the possible value of the goods to be sold.

§ 107. Exception for Work or Services

If the article purchased involves work or services which make it suitable only for the original buyer, the contract may be oral. For example, a man goes to a dentist and orders a set of false teeth. The dentist takes some porcelain and other materials worth very much less than \$50 and out of them makes a set for which he charges considerably over \$50. His work and skill are what give the teeth their value, and the teeth which are made for one man cannot be sold to another. In such a case the law says it is the dentist's services, not the materials, for which the man is paying, and the contract is not one of sale and need not be subject to any of the conditions mentioned in § 103. That is, the dentist can bring suit without a written contract.

If the article to be made is something which can be sold to someone else, the contract is one of sale and must satisfy the requirements of the Statute of Frauds.

The foregoing is a statement of the law where the Uniform Sales Act applies. There have been two other views of the case: one of them, the English rule that if any article was to be made as a result of work and services, the contract was one of sale; the other, the former New York rule, that if there was any work to be performed on the article, the contract was not a sale but for work and services, and the Statute of Frauds did not apply to it. Either of these two rules may still apply in a state which has not adopted the Uniform Sales Act.

Note:

1. Have a written contract in all cases where the price is more than you can afford to lose.

REVIEW QUESTIONS

1. Distinguish between a "sale" and "contract to sell."
2. Has the Uniform Sales Act been adopted in your state?
3. In your state what is the amount over which contracts must be in writing? Must this amount be "in value" or "in price"?
4. Who must sign the memorandum required by the Statute of Frauds? Why should both parties sign?
5. When should the memorandum required by the Statute of Frauds be made and what should be its form?
6. What exceptions are there to the rule in the Statute of Frauds as to the written memorandum?
7. What is the rule in your state as to contracts for work and services?
8. What are "goods, wares and merchandise" within the meaning of the Statute of Frauds?

CHAPTER XVIII

WARRANTIES¹

§ 108. Introductory

The definition of a warranty in the Standard Dictionary is:

An assurance or undertaking by the seller of property, express or implied, that the property is or shall be as it is represented or promised to be, as to quantity, quality, or title.

If a farmer goes into an agricultural warehouse and asks to look at mowing machines, and after having inspected the stock and obtained prices to his satisfaction, says he will take the one which he has selected, he has assumed the responsibility for its fitness himself and has no recourse as to the seller for damages afterward if it should prove unsatisfactory. The court would apply the maxim *caveat emptor*, the ancient and harsh doctrine of the common law, signifying, "let the buyer beware." The common law took a sporting view of the dealings between buyer and seller, and did not wish to discourage skill in barter by stressing too much any ethical considerations.

At the present day, however, both law and trade morality have advanced a long way beyond this primitive conception of the rights of buyer and seller. Nearly all trade transactions are now based on certain contract conditions, expressed or implied, by which the risk to the buyer is largely eliminated. A change of property for a consideration rarely takes place

¹For form of warranty contract, see Chapter CI, Form 25.

without some conditions or warranties as to quality, utility, or other characteristics of the commodity sold.

Note:

1. The buyer should take care that he has a warranty that what he purchases will serve his purpose.

§ 109. Conditions Precedent

An agreement that an article must be up to a certain standard is known as a condition precedent.

A condition precedent is a specification of the kind of article that is wanted with which the article must comply before there can be any sale at all.

If it is agreed that the article to be sold is to conform to a certain standard, there is no sale until an article is produced according to that standard. For instance, if the seller agreed to furnish a steam pump that would raise 100 gallons a minute to a height of 50 feet, he must furnish a pump that will do exactly this before the buyer is obliged to take it.

Another example of a condition precedent occurs in a provision that work to be done or goods to be delivered must be satisfactory to or approved by some third party, as when a church organ is installed, to be approved by some musical expert.

All executory contracts are, in fact, contracts with performance as a condition precedent to payment.

Note:

1. Where there has been an agreement that the article to be sold shall be of a certain kind and quality, the buyer is not obliged to take any article that is not of that kind and quality.

§ 110. Conditions Subsequent

A condition subsequent is a condition that may defeat the sale after its completion, and give the buyer the right to return it and recover the price if he had paid for it.

The technical distinction between a condition subsequent and a warranty has been wiped out by the Uniform Sales Act. Formerly, a breach of warranty entitled the injured party only to damages, while a breach of condition gave him his choice of suing for damages or returning the goods. By the Uniform Sales Act the buyer who suffers a breach of warranty now has the same choice of remedies that the buyer who suffers a breach of condition has always had. Wherever this act is in force the buyer, whether under warranty or under condition, has his choice of suing or of returning the goods.

§ 111. Express Warranties

An express warranty is a statement made by the seller about the quality, durability, working ability, etc., of the article sold in order to induce the buyer to purchase. The purchaser must have bought the goods in reliance on that statement. If he relies on his own judgment and selects the goods himself, there is no warranty even though the seller makes a statement of fact.

Any statement of fact or any promise by the seller in regard to the quantity, quality, or title of a commodity is an express warranty, if the natural effect of such a statement is to induce the buyer to purchase the goods, and if the buyer does purchase the goods relying on such statements.

If there is a warranty, and upon using the goods it turns out to be untrue, under the Uniform Sales Act the buyer may return the goods, or he may sue the seller and recover damages in the amount of the difference between what the article is actually worth to him and what it would have been worth had the warranty been true. (See § 114.)

If a merchant tells you that his goods are the best on the market, this is not an express warranty, as it amounts merely to his opinion of them, and is what is called "merchant's puffing." If, on the other hand, he makes an express statement that these goods will wear better than certain similar goods manufactured by another firm, you may rely on his statement as an express warranty.

It is always well to get a warranty in the most definite terms possible, for if a merchant is really willing to warrant his goods he will not be afraid to say so in plain language if the buyer insists upon it. If the merchant is not willing to make a definite warranty, it is better for the buyer to know it beforehand and to realize that he is relying on his own judgment and can claim nothing from the merchant in case the goods prove unsatisfactory. A written warranty prevents forgetfulness on the part of the seller.

Notes:

1. In all purchases, make sure that all terms are plainly written out, in positive language.
2. In all prospectuses, analyze the statements and note the positive assertions as to material matters.

§ 112. Implied Warranties

In every sale today there are certain implied warranties which the law compels the seller to make good. In regard to his right to sell the property, he warrants by the mere act of selling goods:

1. That he has a right to sell the goods, or, if it be a contract of sale, that he will have the right to sell them when the time for the sale arrives.
2. That the buyer shall not be disturbed by any claims made by others against the goods.

3. That the goods are free from any claim, charge, or incumbrance at the time of the sale.

These warranties do not apply to sheriff's sales and auction sales. There the buyer takes the risk that the article may be claimed by someone else.

If the seller sells stolen goods, the buyer will be forced to return the goods to their rightful owner, but he may, if he can, recover from the seller the damages which he has suffered because of the sale.

Special Situations. There is what seems to the public a curious situation here. If the seller had actually stolen the goods, the buyer would have to give them up to the rightful owner even though he knew nothing of the theft; whereas, if the seller had obtained the goods with the consent of the rightful owner through fraud, the buyer, ignorant of the fraud, might be allowed to keep them. There is a case where a man bought some jewelry on credit by representing himself to be another man, and afterwards sold the jewelry to a third person who had no knowledge of the fraud, and the third person was allowed to keep the jewelry. This is because the jeweler gave up the property of his own accord to the fraudulent seller and therefore enabled the seller to lead the third person into buying the jewelry and paying out his money for it.

Other Implied Warranties. There are two other warranties which go with a sale of goods even though nothing is said about them.

1. If the buyer makes known to the seller the purpose for which he intends to use the goods, or if this purpose was known to the seller, there is a warranty that the goods are fit for the purpose.

Whenever a person goes into a market or a grocery store to buy food, the butcher or the grocer is supposed to know

that he is buying it for the purpose of eating it and there is, therefore, a warranty that the food is fit to eat.

If the buyer orders goods by their trade-names (Quaker Oats, Ivory Soap, etc.), the seller is relieved from any warranty that they are fit for his purpose.

2. If goods are bought from a person who regularly deals in that kind of goods, there is a warranty that they are of merchantable, that is, salable quality.

When a person orders goods from a description in a sales catalogue, or from a sample, there is also an implied warranty that they are similar to the description or sample.

The seller is liable in damages to the buyer if any of these warranties are broken. He is liable only to the *immediate* buyer, however, and not to other persons to whom the buyer sells the goods, although he may, if he manufactured the article himself, be liable for any injuries suffered as the result of a defect in it.

Note:

1. The fact that the law implies certain warranties should not prevent the buyer from obtaining positive written warranties on all important purchases.

REVIEW QUESTIONS

1. What is a warranty?
2. Is a warranty of quality of a chattel implied by the mere fact of sale? What is the rule?
3. Distinguish a condition precedent from warranty.
4. Distinguish a condition subsequent from warranty.
5. May an injured party treat breach of a condition subsequent as a breach of warranty?
6. What two elements constitute an express warranty? Distinguish between a "statement of fact" and an "expression of opinion."

7. What are the implied warranties of ownership where a sale is made? What are the implied warranties of quality?
8. To what classes of sales do the implied warranties of ownership not apply?
9. Does a warranty follow the goods through successive sales? What exception is there to this rule?
10. To whom only is the seller liable for a breach of an implied warranty?

CHAPTER XIX

REMEDIES

§ 113. Rights of Unpaid Seller Under the Contract

The various sorts of warranties protect the buyer in all business transactions. It is necessary also that the rights of the seller be protected. Most breaches of contract in cases of sale arise from the failure of the buyer to make the required payments. In such cases the goods may be in the possession of one of the following three parties:

1. The unpaid seller may still have the goods in his own possession; or
2. They may be in the possession of a railroad, a steamship, or an express company for the purpose of shipment to the buyer; or
3. They may be in the possession of the buyer himself.

A seller is still unpaid if he has been given a bad check or note in return for the goods.

1. If the seller has the goods in his own possession, and if they were not sold on credit, any of the following courses is possible:

- (a) The seller may in most cases refuse to give them up until they are paid for. If, however, the sale is on credit, and the seller has no reason to believe that the buyer is insolvent, the seller's duty would be to deliver the goods.
- (b) If the goods are of a perishable nature, or if the buyer has failed to pay for an unreasonable length of time, or if the seller has reserved that right in his agreement of sale, he may resell them to

another person, keep the price, and sue the buyer for damages for any loss he may have sustained by the transaction.

- (c) The seller may, if the time for payment has arrived, notify the buyer that he holds the goods for him and sue him for the price.
- (d) The seller may, if the time for payment has arrived and no payment has been made, sue the buyer for damages for breach of the contract.

The measure of damages will be the difference between what the seller can sell the goods for to someone else, and the contract price. If the seller was manufacturing the article, he may claim damages for whatever loss he has sustained in time or otherwise up to the time the buyer notified him that he refused to take the article, *not* for any loss through continuing the work after that. Of course, if he can sell the article when finished to someone else at the same price, there is no loss.

If the goods were sold on credit, and the term of credit has expired while they are still in the seller's possession, or if the buyer has become insolvent, then the seller may exercise either of the last two rights.

2. If the goods have been delivered to a railroad company, etc., for transportation, the seller's rights may be summed up as follows:

- (a) If in giving the goods to the railroad company for transportation the seller reserves the right of ownership to himself, he may refuse to allow the goods to be delivered to the buyer until the latter pays the purchase price. The seller may keep control by shipping to himself at the destination. Then, until he assigns the bill of lading to the buyer, the control is in his hands.

- (b) If the buyer becomes insolvent and the goods are in transit, the seller may stop their delivery and enforce any of the remedies mentioned under (1), provided the railroad, express company, or other carrier, has not informed the buyer that they are holding the goods subject to his orders. The seller cannot, of course, stop the delivery of the goods after they are in the possession of the buyer or his agent, even though it was before they reached their destination. If there has been a bill of lading issued for the goods, the railroad company may refuse to give them up until the bill of lading is returned.

Until the goods have come into the possession of the buyer, the seller's right of stoppage *in transitu* is superior to any other claim. Other creditors have tried to attach goods under such circumstances, but the courts have always maintained the seller's priority unless the buyer himself had received them, or they had rightfully passed under his control. The buyer could not defeat the right of stoppage by selling the goods in transit to a third party. The third party would have the same rights as the first buyer and no more.

A seller who stops goods in transit on a mere *rumor* of the buyer's insolvency will be liable for damages if the buyer is really solvent.

- 3. If the goods have come into the possession of the buyer, they are his property and the seller has lost all claim to them. The seller can only bring suit for the price if it is not paid when due.

Note:

- 1. A provision permitting the seller to resell the goods in the event of non-payment before delivery should be inserted in the contract in those cases

where the buyer's credit is not dependable. This allows him to protect himself by selling them without running the risk of being held guilty of breaking the contract.

§ 114. Rights of Buyer

When a salesman sells goods to a customer, the employer has the right to refuse to accept the order of the customer, but, if the customer can prove actual damage, the employer will be liable to the extent thereof. By allowing the salesman to hold himself out as an authorized agent with the power of sale, the employer makes himself liable for his acts.

Where the seller refuses to give up the goods to the buyer, except where the buyer does not pay at the proper time (see § 113):

1. The buyer may have the right to the ownership of the goods. In this case he may sue the seller for damages for withholding the goods, or he may bring what is known as an "action in replevin" to get possession of the particular goods.
2. Or the buyer may have no right of ownership over the goods, but only a right under the contract to have the goods delivered to him. In this case:
 - (a) The buyer may sue the seller for damages for breach of the contract; or
 - (b) If the article was of a special kind or made to order so that he could not get it anywhere else, the buyer may go into a court of equity and sue to compel the seller to perform his contract.

The measure of damages in any of these cases is the difference between what the buyer could go out into the market and buy the goods for, and the contract price. If he

could get them for the same price or less in the market, he would, of course, have suffered no damages.

Where the seller delivers or tenders the goods but they fail to come up to a warranty which he has made for them, the Uniform Sales Act allows the buyer the following remedies:

1. He may accept or keep the goods and set up against the seller the breach of warranty by way of recoupment in diminution or extinction of the price.
2. He may accept or keep the goods and maintain an action against the seller for damages for the breach of warranty.
3. He may refuse to accept the goods, if the property therein has not passed, and maintain an action against the seller for damages for the breach of warranty.
4. He may rescind the contract to sell, or the sale, and refuse to receive the goods, or if the goods have already been received, return them or offer to return them to the seller and recover the price or any part thereof which has been paid.

When the buyer has claimed and has been granted a remedy in any one of these ways, no other remedy is thereafter granted.

The buyer must send back the goods in as good condition as that in which they were received, unless the damage has resulted because of the fact that they were not as warranted. He cannot return them if he has once accepted them knowing that they were not as warranted, or if he has failed to notify the seller within a reasonable time that he refuses to take them.

If the goods are really not as warranted, and notice has been given to the seller that the buyer refuses to take the

goods, the buyer cannot be held liable for the price. If he has paid any part of the sum due, he is entitled to have that money back before returning the goods, and, if necessary, may sell the goods to another party in order to get back what he has paid on them, handing over the surplus to the seller.

The measure of damages which the buyer may recover for a breach of the contract of warranty is the difference between what the goods were actually worth at the time they were delivered, and what they would have been worth if they had been as warranted.

Note:

1. In any case where the buyer intends to assert his rights, he should act promptly. Delay may be fatal. A buyer should never accept goods without examining them. Where there was a warranty of durability, he should notify the seller of his dissatisfaction, or refusal to accept the goods, just as soon as he discovers that they are not up to the warranty. It is a prudent thing in such a case to provide in the agreement of sale that the buyer may keep back part of the purchase price till he has tested the article warranted.

§ 115. Rescission of Sale

A rescission results from failure to perform a contract of sale. Both parties may now agree or one party may call it off and the other may acquiesce. If the other does not acquiesce, the rights of the parties must be determined by suit as set forth in the earlier part of this chapter.

In case of rescission: (1) The buyer and the seller may agree to cancel the contract. (2) When the seller has the goods in his possession or has stopped them on the way to the buyer, he may call off the sale if he has reserved that

right in the contract and the buyer does not carry out his agreement: or if the buyer fails to pay for the goods within a reasonable length of time. (3) The buyer may call off the contract if the goods are not as warranted.

When the sale is called off by agreement, the buyer must return the goods to the seller, and the seller must return the price to the buyer. But the buyer may keep the goods until the seller pays him back what he has paid, and the seller may keep the price until the buyer returns the goods. Either party may take the initiative. The one who most desires to cancel the sale will probably move first.

When goods are not up to the warranty the buyer must return the goods in the same condition in which they were when he received them. He may either actually return them or notify the seller that he refuses to accept them and will hold them subject to his order.

Note:

1. Either party who wants to call off the sale should do so just as soon as he finds out that he has good reason to cancel it. The court will not look with favor on any delay, as it is not fair to the other party. The buyer may sell the goods if necessary and get out of the money realized what he has paid on them. If he has paid the entire price and the goods do not realize that amount when sold, he may sue the seller for what he has lost on the transaction.

REVIEW QUESTIONS

1. What recourse has a seller who has the goods still in his possession: (a) If a sale was to be for cash; (b) if it was on credit; (c) if the goods are perishable?
2. How can goods be shipped so that title remains in the seller?
3. What is meant by the right of "stoppage in transitu"? If this right is exercised on a false rumor of the buyer's insolvency, what is the effect?
4. A seller of goods under contract that no payment is to be made till all goods are shipped, ships some, and then finds that the buyer has failed. What can the seller do?
5. If a seller wrongfully refuses to deliver goods, what remedy has the buyer? When can the buyer enforce specific performance of his contract?
6. A salesman sells a bill of goods. The employer refuses to accept the order. Has the buyer any recourse?
7. When goods are ordered and on arrival they fail to come up to a warranty that has been made, what two alternatives has the buyer?
8. How can a sale be called off?
9. Jackson bought 70 cords of wood of Smith. The wood was piled and measured on Smith's property, and Jackson was to come to get it. Nothing more was said. Before Jackson paid for or took the wood away, he went into bankruptcy. His receiver claimed the wood, which the seller refused to give up. Who was right?
10. Farley sold a carload of furniture to a retail firm. While the goods were en route over the railroad, he learned that the firm was insolvent, and accordingly ordered the railroad to return the lot to him, offering freight and other charges. The railroad, however, claimed that it had attached the goods to satisfy a claim of its own against the insolvent firm. Could such attachment take precedence of the seller's lien?

CHAPTER XX

SALES AT AUCTION

§ 116. Regulations for Sales at Auction

A sale at auction is held in accordance with terms printed in the auction bills. The sale is made when the auctioneer lets his hammer fall. He need not accept any bid unless required to do so by the terms of the printed auction advertisement. Generally such an advertisement will specify that the property is to be sold to the highest bidder. An auctioneer may refuse to recognize bids that are not substantially higher than the last bid, the amount depending on the value of the article offered for sale.

If the seller had printed in the auction bill a provision that he reserved the right to take part in the bidding himself, he might bid at the sale or have his friends do so for him. Otherwise if the seller himself bids, or has bids made for him, the person to whom the goods are finally knocked down may refuse to take them if he discovers the situation.

§ 117. Compliance with Conditions

The sale may be made on some condition. The buyer must then comply with the condition before he can receive the goods. Sometimes bidders are required to make a deposit before being allowed to bid; sometimes they are required to make a deposit after the bid is accepted. If the bidder does not comply with the terms of the sale he forfeits this deposit, unless it appears that the seller could not give him good title to the property, in which case he may recover his deposit and refuse to take the goods.

A purchaser at an auction sale must always pay cash before he is entitled to the property unless the printed terms provide otherwise.

The seller may sue the purchaser for damages if the purchaser fails to take property which was knocked down to him. The seller may also sell the goods to someone else for what he can get for them. This amount will be deducted from his damages.

§ 118. Duties of Auctioneer

The auctioneer acts as an agent for the seller in selling the property; for the buyer in signing a memorandum of the sale. The seller will be bound to carry out the sale which the auctioneer makes, and the buyer to take the goods according to the memorandum of sale. An auctioneer is not allowed to bid for himself at a sale, but he may make bids for someone else. If he does not state for whom he is selling the property, he is personally responsible to the purchaser for seeing that the terms of the sale are carried out.

An auctioneer who sells property that does not belong to the seller is personally responsible to the owner of the property, even though he honestly thought it was part of the goods to be sold. Because of all this responsibility, the law usually requires an auctioneer to have a license. In New York a man must take out a license to act as auctioneer in order to sell even his own property.

The auctioneer has a lien on the property for his commission, and may require the commission to be paid him before giving up the property to the purchaser.

Note:

1. In planning for an auction sale, all the terms should be decided upon and printed in the handbills advertising it. If the owner of the property wants

to reserve the right to bid or to have bids made for him, it must be definitely stated.

REVIEW QUESTIONS

1. Has the owner of goods sold at auction the legal right to bid on them?
2. What should be announced in the auction bills?
3. Whose agent is the auctioneer?
4. In your state does the auctioneer have to be licensed? May a man sell his own goods at auction without a license?
5. What lien has an auctioneer?

PART IV
AGENCY

CHAPTER XXI

PRINCIPLES OF AGENCY

§ 119. Introductory

In the complex commercial life of today much of the world's business is of necessity transacted by proxy. The amount of business that one man can do is limited. Hence, to conduct the great activities of the world, those with executive ability empower others to act for them. At the present time the larger proportion of business men are not doing business for themselves, but are acting as agents for others. On this account the subject of agency is of primary importance. Many men are principals, yet more are agents; and all have to do with agents and should know what agents' powers are and just how far they represent their principals. The matter of agency enters into all departments of business and will come up again and again in the treatment of other subjects in this work. The subject of agency is of vital importance in insurance, partnership, and corporation law.

§ 120. Definitions

An agent is one who represents, or is authorized to represent, another person in a business transaction or transactions with third parties.

The person represented is known as the "principal."

The person appointed may be known as "agent," "factor," "broker," "attorney," "proxy," "delegate," or "representative."

The relation between the principal and the agent is termed "agency."

§ 121. The Principal

Anyone capable of transacting his own business may appoint an agent to act for him in the same matters. A standard text-book expresses it thus:

It may be stated as the general rule, by the common law every person who is competent to act in his own right, and in his own behalf, may appoint an agent.¹

In the California Code it is expressed as follows:

Any person having capacity to contract, may appoint an agent.

The legal doctrine of agency is based on the principle that whatever a person may do for himself, he may do by another person. The person who appoints an agent must be, therefore, capable of transacting his own business; that is, when he appoints an agent, he must be sane, sober, and capable of acting for himself, and also, he must be of full age—hence a minor cannot appoint an agent.

The following are legally qualified to be principals:

1. Corporations may appoint agents to accomplish their corporate purposes—in fact, a corporation can act only by its agents.
2. Partnerships may appoint agents, and apart from this each partner is held to be an agent for the firm.
3. Married women may appoint agents.
4. Unincorporated clubs and societies may appoint agents.

Notes:

1. The principal must be competent to act, and in his sane mind.

¹ Mecham on Agency, 129; Cyc. 31, p. 1175.

2. Infants are not competent to act for themselves, and hence cannot appoint agents. ✓
3. Partnerships, clubs, and societies may be principals.
4. Corporations can operate only through agents.

§ 122. The Agent

Any person who is qualified to perform a particular act may do it as the agent of another.

Anyone who has capacity to act for himself is ordinarily capable of acting as agent for another . . . it is generally thought he may be capable of acting as agent for another, although he is not capable of acting for himself.²

The point to be noted in this statement is that a person may be legally incompetent to act for himself, but yet may lawfully act as agent for someone else. For instance, a minor, i.e., anyone under age, cannot contract for himself, but he may act as agent for an older person and what he does will bind the older person.³

A child may be the agent of his parent. But it must be because the child has been appointed an agent, not simply because he is the child of, or is living in the house with, the parents. In such cases, to be an agent, the child must have been directly authorized by the parent to act along certain lines, or else it must be shown that the child had been in the habit of so acting with the approval of his father or mother.

In a New Hampshire case the judge said:

A son has no authority, as such, to lend his father's property, and there is no presumption that such authority has been given the son.⁴

² 31 Cyc. 1212; Lyon & Co. v. Kent, 45 Ala. 56.

³ Sheldon v. Newton, 3 Ohio State 494.

⁴ Johnson v. Stone, 40 N. H. 197.

Notes:

1. A minor who cannot contract for himself may contract as an agent for someone else. ✓
2. Anyone can be an agent to do anything he is sufficiently intelligent to do.
3. A parent is not bound by the contract of a minor child unless he has expressly or impliedly made the child his agent. ✓

§ 123. General Agents

A general agent is one authorized to assume entire charge of his principal's business, or all of one phase of the business, or all of his principal's business at some particular place.

Unless notified to the contrary, people dealing with an agent have the right to presume that his agency is a general one, and that he is authorized to do anything usually done in such a business. A general agent has unrestricted powers to deal along the line he is engaged in.

The manager of a business is a general agent with power to use his individual judgment and to act largely upon his own initiative. His employer controls and limits his general policy, but he does many specific acts at his own discretion, and delegates authority in minor details to subagents who answer to him for what they do.

For instance, the manager of a grocery store is a general agent for that purpose and has authority to purchase all kinds of goods that are sold in the store, and to contract for necessary repairs and improvements in the store. He has no authority to buy dry-goods, hardware, or other things outside his line of business. He has no authority to sell the whole store, or to buy real estate, or to build a new store. If such an agent wanted to contract for an addition to the existing store, the contractor would do well to find out whether or

not the agent had authority to do this, because this would seem not to be included in his general authority.

An agent may possess direct authority to bind his principal in a particular transaction; that is to say, the principal may expressly empower the agent to bind him; and this direct authority will carry with it, by implication of law, such powers as are suitable and reasonably necessary to accomplish the intended purpose.⁵

A superintendent of a factory is a general agent for the purpose of running the factory, and is presumed to have power and authority to do anything necessary to keep it in operation, and in case of emergency to preserve the business and the building and to protect the employees.

Notes:

1. A general agent has wide powers in his particular line of business.
2. He has no authority to bind his principal outside of his general line of business.
3. It is expedient to know, when you are dealing with an agent, whether he is a general agent or a special agent.
4. A third person, having ascertained the general character and the scope of an agency, may rely on the agent's having such powers as naturally and properly belong to his position.
5. In doubtful cases, it is safest for those dealing with a general agent to ascertain the extent of his authority.

§ 124. Special Agents

A special agent is one authorized to act in a specific transaction or in a limited line of business. The authority of a

⁵ Hackett v. Frank, 105 Mo. App. 384.

special agent is not so broad as the authority of a general agent.

A special agent is authorized to do some special thing. He may make, for instance, but the one contract or the one sale for which he has been appointed. Should he do some other special thing, which he honestly considers more to the interest of his principal, he would depart from his instructions and he alone would be liable; the party represented would not be bound. For example, an agent authorized to sell a particular painting would have authority to sell *that* painting and to bind his principal in what he did in connection with the one transaction, but he would have no authority to do anything else.

Similarly, a special agent might be authorized to buy wheat for his principal; in that case he would have no right to buy lumber, coal, or another grain, but he could bind his principal in any transaction for the purchase of wheat. If the agent has an established office or place of business where he has been doing business for some time with a sign or signs indicating his agency and line of business, a third person would be safe in doing business with him in the particular line.

In dealing with a special agent engaged for a particular transaction, a third party should ask to see the agent's authorization, which is usually in writing.

In a New York case, a father authorized his son, to accept a draft for \$2,000, drawn upon the father at not less than thirty days. The son accepted a draft for \$482, payable ninety days after date, in the name of his father. The court held that he was a "special agent," and had no right to go outside of his authority.⁶

A written request to a real estate broker as special agent, to find a purchaser for real estate, does not confer upon him

⁶ *Nixon v. Palmer*, 8 N. Y. 398.

any authority to sign a binding contract of sale for his principal. To do this, he must also have authority from his principal to sell.

Notes:

1. A special agent has limited authority.
2. This authority may be indicated by:
 - (a) Written authorization.
 - (b) An established office with signs and advertisements.
 - (c) A continued course of dealing.
3. No one can become the agent of another except by the will, expressed or implied, of the principal.
4. An agent cannot create in himself a particular authority merely by the performance of the act.

§ 125. *Del Credere Agents*

A *del credere* agent is one who guarantees to his principal that any goods sold by the agent will be paid for.

An agent employed to sell goods sometimes guarantees his principal against loss from any of the customers to whom he sells; in such case, the agent is termed a *del credere* agent. It is not a common arrangement, but nevertheless it is used occasionally in mercantile circles.

A factor with a *del credere* commission or agency is one who in consideration of a higher compensation expressly agrees to pay his principal the price of the goods he sells himself, if the purchaser does not.⁷

A contract of a commission merchant whereby he, for a commission of 5 per cent, undertakes to sell goods and guarantees his sales, need not be in writing.⁸

⁷ 20 Cyc. 186.

⁸ *Sherwood v. Stone*, 14 N. Y. 267.

REVIEW QUESTIONS

1. Who may appoint an agent?
2. Who may act as agent though not as principal?
3. Distinguish between general and special agents.
4. Can a real estate agent as such sign a contract binding his principal to sell?
5. What is a *del credere* agent?
6. If a boy came into a store and wanted to buy an Ingersoll watch and have it charged to his father, what would you advise?

CHAPTER XXII

THE CONTRACT OF AGENCY¹

§ 126. Appointment

The appointment of an agent may be oral, written, or by usage. An agent can be legally appointed for most purposes by an oral or spoken contract. The objection to an oral contract is the difficulty of proving it, and the strong probability that there will be some misunderstanding as to the terms of the contract between the parties. For all ordinary purposes, an oral contract of agency is just as binding as a written contract, provided its terms can be proved.

Usually an agent is appointed in *writing*; either a formal contract is drawn up and signed by both parties, or a letter or a telegram is sent and the other party replies to it, in which case the letter or the telegram and the reply thereto would constitute the written contract.

When an agent is appointed to vote at a corporate meeting, his written appointment is called a "proxy," and is usually signed by the principal and by a witness. Some corporations require acknowledgment of the proxy before a notary public; but this is not usually necessary. (See Chapter CII, Forms 31-33.)

When an agent is appointed to sell land, or to perform any important act, or to conduct any important negotiations, he is given formal power of attorney under seal (see Form 28). A power of attorney is a particular kind of written contract of agency. Where land is to be deeded or a mortgage executed, the agent is called an attorney in fact and it is

¹ For forms of agency contracts, see Chapter CII, Forms 26-33.

absolutely essential to have the formal power of attorney executed just as carefully as a deed, and acknowledged before a notary so that it can be filed in the registrar's office with the deed or the mortgage. (See § 130.)

In many cases of agency, the agent is appointed to an office where he exercises certain powers *without any formal specification* of what he can do and what he cannot do. In such instances, the agent will be held to have all the powers usually attached to such an office. For instance, a ticket-seller for a railroad is an agent of the company and has certain well-known powers; beyond these he cannot go.

An agent appointed to conduct a given business for his principal has authority to do all things incidental or essential to the performance of his duties as agent. If the duties of the agent involve the management of a mercantile business, and it is necessary to employ salesmen, the principal will be bound for the salaries whether he has given express authority to the agent to employ assistants or not.²

Notes:

1. An oral contract is hard to prove, and is liable to be misunderstood.
2. An agent should be appointed by a written contract signed by both parties.
3. An agent to sell or to mortgage land must be appointed by a sealed power of attorney executed and filed like a deed.
4. An agent conducting business for his principal has the usual powers of anyone doing such a business.

§ 127. Express Appointment

The express appointment of an agent requires a specific designation of the agent by the principal. Such an appoint-

² Baldwin v. Garrett, 111 Ga. 876.

ment consists of a definite contract for the agent's services. Most agents are appointed in this way.

The *express authority* of an agent is that authority which the principal directly grants to him. This includes of necessity (whether the agency is general or special) all such powers as are necessary and proper as a means of effecting the purpose for which the agency was created.³

The apparent authority of an agent is that which the principal knowingly permits the agent to exercise, or which the agent exercises without objection from the principal.

§ 128. Implied Appointment

The appointment of an agent is implied when it is just to infer it from the circumstances. If A stands by and sees B sell goods which belong to A and makes no protest, but acquiesces, A will be held to have appointed B his agent and will be bound by B's transactions. This is also called "agency by estoppel," because A will be estopped from denying the fact of B's agency after acquiescing in B's acts as agent and permitting a third person to so regard him.

When in the usual course of the business of a corporation an officer has been allowed, in his official capacity, to manage its affairs or to make certain contracts, his authority to represent the corporation will be inferred from the manner in which he has been permitted by the company to conduct its business.⁴

A wife, as the domestic manager of the house, may buy all things that are naturally and ordinarily necessary for the management of a household. She may contract for household supplies, domestic service, medical attendance, articles of clothing for the use of herself and children, suitable to the style in which the husband lives. It is implied that she is authorized to do this, and the husband is held responsible for

³ Dispatch Ptg. Co. v. Nat'l Bank, 109 Minn. 440.

⁴ Martin v. Webb, 110 U. S. 7.

the cost. She is not held to be authorized beyond this, unless expressly made the agent of the husband for some particular purpose, in the same manner in which he would appoint a stranger.

Notes:

1. An agent's authority should be expressed by a written contract.
2. But an agent's authority may be implied from the conduct of his principal.
3. An agent placed in a position requiring authority has implied authority to do all things that are necessary.

§ 129. Ratification

Where one acts as the agent of another without authorization, his acts as agent may be ratified by the acquiescence of the principal or by the principal's taking the benefit of the agent's performance. It happens not infrequently that an agent, appointed for a definite set of duties, sees opportunity to do something for which he has no authority, but which will benefit his principal. Sometimes a person volunteers to act as agent for a principal whom he has not had opportunity to consult. After an unauthorized act of this kind has been done, the principal may (when he learns of it):

1. Refuse to be bound by it.
2. *Expressly ratify* the act.
3. Impliedly ratify it, by taking the benefit of the action.

If the principal ratifies the unauthorized action, he must ratify it as a whole. He may not ratify part of the agent's act and refuse to recognize the other part.

Ratification, to be effectual, must be made with full knowledge of everything which has any material bearing on the transaction.

Notes:

1. Ratification has the same effect as an original authorization.
2. Ratification may be express, or by acquiescence.
3. Taking the benefit of an unauthorized act (with knowledge of the circumstances) is a ratification of the act.

§ 130. Sealed Contracts

An agent, in order to execute a deed or sealed instrument, must be appointed by an instrument of like formality.

For most purposes an agent may be appointed by a simple written agreement or by word of mouth; and sometimes his authority may be implied from circumstances. When, however, land is to be conveyed or mortgaged, or some important instrument like a deed or a mortgage which is to be recorded in some office of public registry is to be executed, it must be done by the principal himself or by an agent appointed by power of attorney executed with all the formalities of a deed or instrument for record, which must be filed in the same office of public registry as the deed itself. An agent appointed by a power of attorney is called an "attorney in fact."

The most important feature of a deed is the fact that it is *executed under seal*. It is usually witnessed and is then acknowledged before a notary public. The power of attorney requires the formal execution and the same acknowledgment that a deed would require. The doctrine may be summarized thus: An agent to contract under seal must be appointed under seal.

Authority under seal is necessary to enable an agent to bind his principal by a deed or other instrument under seal. It is a technical, but a thoroughly settled rule of the common law, that an agent cannot bind a principal by a deed of con-

veyance, bond or other instrument under seal, unless his authority to do so is also under seal.⁵

There is no doubt about the general rule that a power to execute an instrument under seal must be conferred by an instrument under seal executed with equal solemnity.⁶

Note:

1. A deed must be executed by the owner of the land or by his agent or attorney appointed under seal.

§ 131. Appointment of Subagents

Unless expressly or impliedly authorized, an agent is not empowered to appoint a subagent.

When an agent is appointed, he is appointed because the principal places special trust and confidence in him. It would not be right for an agent to have power to delegate his authority to someone else, whom the principal might not care to have represent him. This is a maxim of the law—that delegated authority cannot be passed on to someone else unless the agent has been expressly authorized to do so, or unless it is customary in the particular line of business.

A distinction is to be taken in this matter between acts requiring discretion and acts that simply involve some mechanical performance. An agent authorized to perform some important work could employ others to help him in the mechanical details. If it were customary, he could employ an assistant superintendent and supervisors, but he could not delegate the active supervision to someone else.

Notes:

1. An agent cannot appoint a subagent.
2. If he attempts to do so, (1) his appointee will have no power, and (2) the agent will be personally liable for the subagent's wages.

⁵ Clark & Skyles on Agency.

⁶ Long v. Hartwell, 34 N. J. L. 122.

§ 132. Servants and Employees

An employee or servant may also be an agent if authorized to do business with third parties.

The distinction between an employee or servant and an agent is that the employee or servant is employed to do certain things and has no relation with third parties, while an agent is employed to represent the principal in dealings with third parties. It happens in many cases that an employee is also an agent, but his functions as an agent are distinct from his functions as an employee. A servant employed in domestic activities becomes an agent when he or she is authorized to buy supplies, or to do anything else that involves dealing with third parties. (See § 136.)

If a delivery man has been in the habit of making collections, it would be safe to pay him: If a package has been sent C. O. D. the bearer is thereby authorized to receive the amount.

If an employer acquiesces in his employees' acting as his agents, he will be estopped from denying their agency. (See § 128.)

Notes:

1. It is not safe to deal with a servant or an employee unless he or she is authorized to do business with third parties.
2. It is not safe to pay money to truck drivers, delivery men, and errand boys, unless it is known that they are authorized to make collections.

§ 133. Void Contracts of Agency

Contracts of agency for an unlawful purpose, as is the case with other contracts (see § 39), are illegal and cannot be enforced.

For example, a contract to conduct a gambling establishment would be absolutely void. The principal could not com-

pel the agent to carry out the contract, and the agent could not collect any compensation for the unlawful service.

A contract to procure an agent to commit a positive crime, to bribe legislators, to forge a will, or to commit a burglary, is void absolutely and entirely.

Any contract opposed to public policy is void.

Certain things are said to be against public policy. The following are examples: to employ a lobbyist to influence legislation; to contract with a lawyer to organize a trust in restraint of trade; to employ a broker to negotiate a marriage; or to bribe a purchasing agent to buy from you.

In any contract to do an unlawful act, both agent and principal are liable to damages and to criminal prosecution. If an agent or an employee were engaged to smuggle silks, both the subordinate and the principal are liable to prosecution and whatever penalties are imposed. In legitimate business the agent acting within his authority makes his principal liable but does not make himself responsible. In any illegal business, the responsibility attaches to principal and agent alike. (See § 146.)

Notes:

1. Any contract for an illegal or immoral purpose is void.
2. An agent employed to act illegally cannot collect any compensation.
3. In a contract for an illegal or immoral act, both principal and agent will be liable to damages and to criminal prosecution.

REVIEW QUESTIONS

1. How may an agent be appointed?
2. What is necessary to appoint an agent to convey land?
3. What may an agent do in the absence of formal specification?

4. To what extent is a wife the implied agent of her husband?
5. How may a contract be ratified?
6. Define "power of attorney" and "attorney in fact."
7. Can an agent appoint a subagent? Explain answer.
8. Distinguish between a servant and an agent.
9. What contracts of agency are void?
10. Can an agent who collects a gambling debt recover an agreed commission?
11. What is agency by estoppel?
12. A's wife was ill and the family physician said that he would like to consult with a specialist. A said that he was willing. The family physician called in the specialist, whose diagnosis afterwards proved to be erroneous. Later the specialist brought suit for his services, to which A made the defense that he did not employ the specialist, and that the diagnosis was erroneous. Can the specialist recover? Give reason for answer.
13. What general facts are necessary to validate an unauthorized assignment by an agent?
14. Does the relation of agency always rest on consent?
15. In your state is there any provision of the law with which one must comply in order to conduct a general mercantile or manufacturing business in a fixed location as agent for another?

CHAPTER XXIII

THE PRINCIPAL

§ 134. Principal's Duty to Agent

The principal's duty to his agent is to pay him his compensation and proper expenses. The relation of the principal to the agent is one of contract. The agent agrees to render services and the principal promises to pay him a salary, a commission, or a fixed sum. If no amount of compensation has been fixed, the agent will be entitled to whatever his services are reasonably worth. Unless provided otherwise, the principal is bound to reimburse him for whatever expenses he has properly incurred. The contract should be a written one to avoid misunderstandings and to supply evidence of what the agreement really was.

The usual rules which govern employment prevail in this relation. If the principal terminates the agency before the end of the period of employment, he must compensate the agent for the unexpired term less any amount the agent can secure from some other employment. If the agent were to be paid a commission or a gross sum and the principal were to terminate the agency unreasonably, the principal would be liable to pay damages for the breach of his contract. If the agent had completed his undertaking, even though the principal did not take advantage of what the agent had done, the agent nevertheless would be entitled to full payment for his services.

In a Missouri case, one Gelatt, a real estate agent, was employed by the owner of a business block to find a purchaser for the property. He found a buyer, but the owner advanced

the price and broke up the deal. The court decided that Gelatt was entitled to his full compensation.¹

If the principal makes it impossible for the agent to complete the undertaking, he must compensate the agent.

Note:

1. The principal's duty to his agent is simply to deal fairly. An express contract in writing will prevent misunderstanding.

§ 135. Principal's Duty to Third Party

If the principal leads the third party to think that the agent has authority beyond his express authorization, the principal will be bound by whatever the agent does in the exercise of his apparent authority. In many such cases, the principal becomes bound, not by any positive thing which he has said or done, but because of his acquiescence in what the agent was doing, or his failure to protest at the proper time. In other cases the principal has allowed the agent to do certain things beyond the latter's authority; and this has continued until a course of dealing has become established. In all such cases, third persons are justified in assuming that the agent's apparent authority is real, and the principal will be bound.

The principal is liable for all acts done by the agent within the *apparent*, as well as *actual*, authority given. (See § 128.) Third parties dealing with an agent do not know his secret instructions, and whatever authority the agent appears to have can be used by him to bind his principal. The third party must, however, (in good faith) believe that the agent has the authority.² The agent's own representations as to the extent of his authority, if false, will not bind his principal.

An agent to sell goods who has possession and is in position to deliver is authorized to receive payment; but if he is not in

¹ Gelatt v. Ridge, 177 Mo. 553.

² Johnson v. Hurley, 115 Mo. 513.

possession of the goods he is not authorized to receive payment. Usage and trade customs count heavily in deciding what constitutes the apparent authority of an agent.

Notes:

1. When an agent is appointed, he is given as much authority as his position seems to warrant.
2. Secret instructions or limitations on the agent's authority do not bind third parties unless such instructions are known to these parties.

§ 136. Principal's Liability

A principal is liable for all fraudulent, negligent, or wrongful acts of his agent in the scope of his employment. If this were not so, it would be possible for a man to perpetrate all manner of fraud and wrong, and to escape punishment by employing some agent of no repute to do the dirty work. A principal is liable for carelessness, deceptions, false pretenses, or wrongful acts of any kind committed by the agent in carrying out the purposes of his principal.

The principal is liable for any damages to third persons arising from the mistakes or the negligence of an agent or an employee while acting in his service.

In a case in Rhode Island, a salesman suspected a woman customer of stealing a package of spoons. He detained her, sent for a policeman, had her taken to a police station and searched. She brought suit against the firm that employed the salesman for the wrongful arrest and search, and was awarded damages. The court said:

"If in the performance of his duty he, the salesman, mistook the occasion for it or exceeded his powers or employed an improper degree of compulsion, the mistake and the excess must be answered for by the master."³

³ *Staples v. Schmidt*, 18 R. I. 224.

If an automobile salesman takes out a machine belonging to his employer to show to a prospective customer, and carelessly runs over a foot traveler, the employer will be responsible. If the salesman takes the machine out after hours for his own pleasure and does the same thing, the employer will not be responsible, because the accident did not occur within the scope of the salesman's duties.

Notes:

1. A principal is responsible for whatever is done by his agent within the scope of his employment.
2. A principal is not responsible for the acts of his agent done outside the scope of his employment.

§ 137. An Undisclosed Principal

An undisclosed principal may take the benefit of any contract made by his agent. As has been stated, an agent may conceal the fact that he is acting for a principal. In such a case, the agent renders himself personally liable, but a principal has the right to take whatever benefit may come from any advantageous contract made by his agent. The undisclosed principal is liable if the third party discovers his existence. With this liability the principal has the right to take the benefit of the contract.

Byington v. Simpson was a case in which a building contract was signed "J. B. Simpson, Agt." The third party knew that Simpson was in fact contracting for his wife. The wife was held liable though her name was not mentioned.⁴

The third party, upon discovery of an undisclosed principal, may hold responsible either the agent or the undisclosed principal. He must elect to hold one or the other; he cannot hold both. To this rule there are the following exceptions:

1. If the contract made by the agent is in the form of a negotiable instrument or a sealed contract, the undisclosed

⁴ *Byington v. Simpson*, 134 Mass. 169.

principal has no rights or liabilities. He cannot sue or be sued, as such instruments are considered as having been taken solely on the face of the names appearing thereon.

2. If the principal, before his identity was disclosed, in good faith paid the money due on the contract to the agent, he cannot be held liable. This is perfectly fair to the third party because he gave credit to the agent and expected to get payment from him and had no knowledge that there was somebody behind the agent. The third party may collect from the agent if he can, but it would be unfair to let him collect from the unnamed principal who in that case would have to pay a second time.

3. If the third party after learning that there is a certain principal, unequivocally chooses to hold the agent, he cannot alter his decision and proceed against the principal.

4. If the contract states clearly that it is made only by the parties signing and that no other parties are to be introduced into the contract, the undisclosed principal rule would not apply.

Notes:

1. The agent who does not disclose his principal takes the entire responsibility on himself.
2. The undisclosed principal is liable when discovered.

REVIEW QUESTIONS

1. What are the duties of a principal to his agent?
2. What rules usually prevail in the relation between agent and principal?
3. For what acts of the agent is the principal responsible?
4. What does the "scope of employment" mean?
5. Do false representations of an agent in the "scope of his employment" bind the principal?
6. What is an undisclosed principal? What risk does his agent take?

7. What may a third party do on discovery of an undisclosed principal?
8. May the principal benefit by any transaction in which the agent conceals the fact that there is a principal?
9. What is the rule as to an undisclosed principal in the case of a sealed instrument or negotiable paper?

CHAPTER XXIV

THE AGENT

§ 138. Agent's Duty to Principal

An agent is, in the line of his duties, subordinate to his principal. Therefore, it is an essential feature of his employment that he should obey orders, act with good faith, and use such prudence, skill, and diligence in his duties as are requisite for their proper discharge. He must, if necessary, keep proper accounts and render statements to his principal. He cannot delegate any duty demanding discretion to others without special authority. If he does not do all this, if he fails in his duty, he may be discharged, his compensation may be denied, and he may be responsible in damages.

Any profits made in the course of an agent's employment belong entirely to his principal. An agent may not use his agency for his own advantage.

One Cummings, an agent for the sale of stock for the Diamond Match Company, sold stock of the company amounting at par to \$170,000 for \$200,000, and kept the profit of \$30,000 for himself. Later this was discovered by the company, which brought suit and recovered the whole amount.¹

In making a contract with an agent or confidential employee, it is safest to contract that he shall not at any time, either while he is employed or thereafter, reveal or use for the benefit of others any special information, secret processes, lists of customers, or other private matters that may be learned in the course of his duty. The courts will protect such an agreement.

¹ *Graham v. Cummings*, 208 Pa. St. 516.

In a Michigan case, a party employed in a manufactory of fly paper, under contract not to use methods elsewhere, after severing his connection with the factory, made plans to give others the benefit of his information. The court granted an injunction to prevent him from revealing the processes.²

Where a salesman or solicitor is employed to work up trade, he necessarily becomes familiar with the list of customers. In such a case, a contract with an agent that he shall not, for a period of years, engage with any other house in the same line doing business in the same territory, will be sustained by the courts.

What is here said as to the duty of the agent refers to a general agency, where the agent gives his entire services to one principal. In cases of special agency, what is said of the agent's duty applies only so far as is necessary to effect the object of the agency. A bank may be an agent to collect a draft, but is not called upon to exercise general obedience, loyalty, etc.

Notes:

1. A general agent must be obedient, loyal, careful, skilful, honest, and of good habits.
2. A special agent is required to exercise only such qualities as are requisite to effect the purpose of his agency.

§ 139. Agent's Obedience

Disobedience is good cause for discharge or refusal to compensate an agent, and renders him liable for any resulting damage. It is an agent's duty to obey orders; and by so doing he relieves himself of any responsibility in case of misadventure.

If, however, circumstances should arise which make it

² *Thurm Company v. Tloczynski*, 114 Mich. 149.

necessary to act contrary to the instructions he has received, it is his duty to do this, provided, of course, that it is impossible to consult his principal before acting. Emergencies may occur where it is the duty of the agent to do the best thing possible, even though it involves his disregarding orders. Where no emergency exists, however, the agent violates his directions at his own risk. It is the principal's right to decide how he wishes his matters attended to; and if the agent obeys and loss ensues, it is the loss of the principal. If a shipping agent or railroad varies directions that goods are to go over some particular line, the agent or the railroad incurs the liability of an insurer.

An agent who has been instructed to sell for cash has no authority to allow credit. If he gives credit and loss ensues, he is responsible. If he is authorized to buy or to sell at a certain price, he may not go beyond this. This is not to be understood as prohibiting trifling departures and immaterial variations from exact instructions. The law does not regard negligible things.

An agent who is instructed to ship goods or to remit money in a particular way must obey his instructions to the letter.

Notes:

1. An agent must obey orders if he does not want to make himself liable.
2. When an emergency exists he may act contrary to instructions.
3. A principal should, where possible, give explicit orders to his agent.

§ 140. Agent's Good Faith

Good faith is essential on the part of anyone acting in the capacity of agent. If an agent is found to be working for his own interests as opposed to those of his employer, he may be discharged summarily. If he makes false reports or deceives

his employer, or defrauds him in any way, he may be discharged; and he will have forfeited any claim to compensation. If he learns of anything in the line of his business to the principal's advantage, it is his duty to let his principal know and have the benefit of it.

A broker, in a Michigan case, sold land to a party whom the owner had previously excepted from those to whom the broker might sell. It was held that the latter was not entitled to commission.³

In a Massachusetts case, an agent made a sale of some property, and in rendering the account to his employer charged him \$50 as paid to an attorney for examining the title, whereas he really paid only \$25. The court held that he lost his right to commission.⁴

The Agent Must Not Act for Both Parties. An agent may not represent both parties to a transaction. He may not earn a commission from both buyer and seller. This is a rule that holds good everywhere. But it is said that a double agency may be valid where both parties know of the double agency and agree to it; it is then understood that the agency requires no independent discretion.

The Agent Must Not Act for Himself. If the agent is employed by a principal to manage his business, what he does is done for the principal. It is not right for the agent to be interested adversely; and all the profits that are made in connection with the principal's business belong to the principal, unless he has previously agreed to give the agent a share of the profits as part or all of his compensation.

If the agent in the course of acting for his principal obtains any particular advantage to himself, and the principal discovers it, the latter can hold the agent accountable for the profits or the property so obtained.

³ Ranney v. Henry, 160 Mich. 597.

⁴ Little v. Phipps et al., 208 Mass. 331.

An Agent Must Not Compete With His Principal. An agent must not be interested adversely to his principal. Neither may he represent and sell goods for a competitor of his principal. An employer has a right to his agent's absolute loyalty. If an agent uses his knowledge of his principal's affairs to secure an advantage for himself, the courts will compel him to make restitution. The law moves on a high plane in matters of this kind.

The Agent Must Be of Good Habits. Any habits which interfere with the proper discharge of the agent's duty are sufficient reason for his discharge. Drunkenness in the daytime or while attending to business is undoubtedly sufficient reason for dismissal. As in the case of other employees, the circumstances must be considered.

Generally speaking, an agent may be discharged for drunkenness, gambling, or licentiousness. Possibly, the courts would not in all cases justify too close an inquisition into the private habits of employees. A bank, however, employs detectives; and if an employee indulges in loose living he is discharged and has no recourse. Usually an agent who is discharged for any reason of this kind cannot afford to risk the notoriety involved in an attempt to hold his employer for damages.

Non-Payment No Excuse for Non-Performance. The fact that the agent is unpaid does not affect his responsibility. The agent's liability does not depend upon how well he is paid for what he does, or whether he is paid at all; for, if he undertakes to do anything for another, he must do it well; and he is responsible in case of bad faith, negligence, or lack of skill.

Notes:

1. The doctrine of the law on the subject of the agent's good faith is on an exceptionally high plane.
2. The agent must not act as the agent of both parties unless both know of and agree to it.

3. The agent must not act for himself in the principal's affairs.
4. The agent must not compete with his principal.
5. The agent must be of good habits.

§ 141. Agent's Care, Skill, and Diligence

If anyone undertakes the duties of an agent, he is assumed to have the necessary skill and ability to perform the said duties. In all matters connected with his agency, he is expected to act as an ordinarily prudent, careful business man would act in the conduct of his own affairs. If the agent is a lawyer, he undertakes to have professional ability to represent his client in an adequate manner. If he is a financial agent and invests his client's funds imprudently, he is responsible.

The rule is well settled that an agent is not only bound to act in good faith, but to exercise reasonable diligence, and such care and skill as are ordinarily possessed by persons of common capacity engaged in the same business.⁵

A firm engaged as insurance brokers, if it takes out policies for its clients in irresponsible companies, will, in event of loss, be required to make good the damage resulting from its neglect to use proper care.⁶

Custody of Funds. It is the duty of the agent to account for all funds and property of the principal which come into his possession. In this particular he must obey the rules that govern one person who holds the property of another.

The agent should not deposit funds belonging to his principal to his own bank account; but should open a separate account in the name of his principal, or in his own name as *agent*. If he does this, he is not responsible in the event of the bank's failure and the loss of part or all of the funds. In the same way, it is his duty to turn all money and other

⁵ Whitney v. Martine, 88 N. Y. 535.

⁶ Sheppard v. Davis, 42 A. D. (N. Y.) 462.

property in his possession over to the principal or to the principal's order.

Any money held by an agent for his principal is a trust fund.

In an Indiana case the judge said:

In case it becomes the duty of an agent or a trustee to deposit money belonging to his principal, he can escape risk by making the deposit in his principal's name; or by so distinguishing it on the books of the bank as to indicate in some way that it is the principal's money. If he deposits it in his own name, he will not, in case of loss, be permitted to throw the loss on his principal.⁷

Notes:

1. The theory of the law in these matters is better than the results in actual practice. It is in most cases impossible to obtain legal redress for the common lack of care, skill, and diligence in agents.
2. In all matters relating to the care and the custody of money belonging to others, too great care cannot be exercised.
3. The treasurers of clubs, informal organizations, and unincorporated associations, should observe the rules that have been given for agents in charge of funds.

§ 142. The Agent's Signature

The agent is acting for the principal, therefore when he signs a contract he should sign the principal's name, followed with his own in this form: "By Henry Parker, Agent." When there is a regular course of business, a rubber stamp will probably be used with a blank for the written signature of the agent, as follows: "George Wayman, By —, Agent." Such

⁷ *Waltner v. Dolan*, 108 Ind. 500.

a signature is safe and in no case can it bind the agent personally.

A corporation can act only by its agents. The rule as to the signature of contracts is the same and the name of the corporation followed by the name of the officer signing is the proper form. Letters are often signed by the officer, as "James Haywood, President," the letterhead showing the name of the corporation and that the individual signing holds the office he claims.

The better practice is to have the full corporation signature:

Edgemont Water Company,
By Harvey Gray, Treasurer.

Where notes or other negotiable papers are to be signed by the agent for a corporation or other principal, it is not safe to sign except in the approved form, the principal's name in full followed with "By —, Agent." Any other signature may not only fail to bind the corporation or other principal but may involve the officer or agent in a personal liability as maker or indorser.

§ 143. Agent's Duty to Third Party

Observance of the usual rules of fair dealing and honest treatment is the only duty owed by the agent to the third party. The agent is the representative of his principal, and is to work in the interests of his principal. If he resorts to trickery or fraud, he himself is liable for any damages caused to the third party. An agent cannot be held for a legitimate business contract within the scope of his authority. He binds his principal, not himself. But his principal cannot authorize him to do wrong; and if he does wrong both he and his principal are held.

The agent may legally do whatever the law allows his principal to do. The law is not at its best when it defines the

rights of buyer and seller. The better business houses, in their actual practice, act on a plane far higher than that which the law compels. In other words, good business prescribes a much higher standard of morality in the matter of sales than does the law.

On this account the standards of good business are given here, rather than the legal requirements. Let your dealings be characterized by fairness and liberal treatment. Deal with the third party in such a manner that you can deal with him again. All good and permanent business is to the advantage of both parties. Make every customer a lasting business friend. Treat him as you would like to have him treat you in a like case.

Note:

1. If an agent has a principal who does not believe in the above standard of good business, he had better look for another job.

§ 144. Limitation of Agent's Authority

The agent rarely has unlimited authority. In established positions, such as that of a bank cashier, a railroad conductor, or a retail salesman, the duties are settled and the authority of the incumbent is known to his principal, to those he deals with, and to himself. Usually an agent in such a position keeps to his routine, and his powers are entirely familiar to all concerned.

As between his principal and himself, the agent's authority is limited: (1) by the limitations usual to the employment, and (2) by the limitations expressed in the agreement. If he exceeds these limitations, he may be discharged from his position, and may be held for damages if he is responsible.

In dealing with third parties, the agent, in all those cases where his apparent authority exceeds his real authority, may bind his principal. In such an event, the agent must answer to his principal for his abuse of authority.

Notes:

1. An agent has the usual authority pertaining to his position, unless restricted by special agreement.
2. An agent has always such authority as his agreement with his principal permits.
3. An agent may bind his principal wrongfully when his apparent authority exceeds his real authority.

§ 145. Agent's Fraudulent Conduct

The question of the agent's bad faith to his principal has already been discussed. If he perpetrates a fraud on a third party while transacting his principal's business, both principal and agent are liable. The agent will not be able to shift responsibility to his principal. A principal cannot authorize his agent to commit fraud.

In *Weber v. Weber*, the action was against Caroline Weber for stating positively that there was no mortgage on a piece of land which she was selling as the agent of her husband. The court said:

All persons who are active in defrauding others are liable for what they do, whether they act in one capacity or another.⁸

In a case where the president of a medical institute was made a party defendant in a proceeding against the institution for defrauding a patient, the judge said:

We are not aware of any rule of law which will excuse and absolve a person from the consequence of his own wrong doing, because he happened to be the agent of another at the time of the perpetration of the wrong.⁹

Notes:

1. An agent cannot use his agency to protect him in doing wrong.

⁸ *Weber v. Weber*, 47 Mich. 569.

⁹ *Hedin v. Minneapolis Medical Institute*, 62 Minn. 146.

2. In case of fraud or misrepresentation, the agent as well as the principal is liable to the person injured.

§ 146. Agent's Liability

The agent makes himself liable with his principal, as we have seen, when he is guilty of any fraudulent conduct.

Where the business is illegal, the agent is liable with the principal.

He also makes himself liable when he exceeds his authority, unless the third party knows the nature of the agent's action.

In most cases where an agent deals with third parties, the third parties depend upon the agent to inform them correctly as to the extent of his authority. If the agent deceives them as to this, he makes himself personally liable to the third party to the same extent that he would be had he made the contract in his own name instead of that of his principal.

One Kroeger insured his premises through Pitcairn, an agent, who told Kroeger that he could keep a small amount of gasoline on the premises without making his policy void. Pitcairn had no authority to do this. The premises were burned, and Kroeger could not recover from the insurance company on account of the storage of gasoline. The court did, however, allow him to recover his damages from Pitcairn.¹⁰

If the agent has apparent authority but is limited by private instructions from his principal, he can nevertheless bind his principal by his contract within the scope of his apparent authority. In such a case, he is liable to his principal for any unwarranted action.

It happens sometimes that an agent deals with third parties and assumes to be the principal; i.e., he does not represent himself to be an agent, or disclose the fact that he is acting for someone else. In such a case he will be held personally, as though he were the principal. This is plainly just and right.

¹⁰ Kroeger v. Pitcairn, 101 Pa. St. 311.

Where an agent represents a principal who is non-existent or irresponsible, he binds himself. On occasion agents have represented themselves as having a principal who did not exist—in such cases they bind themselves. Thus, parties acting as directors in a non-existent corporation may be held.

If an agent represents any irresponsible body, such as a social club, a meeting, or any informal organization, he will in all such cases render himself liable. If the agent is authorized by a motion, all members who voted for the motion are liable, and those who are forced to pay can hold for contributions all others who joined in authorizing the expense.¹¹

The Northeastern Pigeon & Bantam Society, a voluntary association, held an exhibition of fancy stock and offered premiums. The expense exceeded the receipts. The court held that those members who paid the loss could bring suit to compel all the other members who had voted to hold the exhibition to pay their pro rata.¹²

A common case under this general head is that of a promoter who incurs liabilities for a corporation before it is incorporated. Until the corporation has come into being, it cannot appoint an agent; therefore the general rule is that the corporation cannot be bound, and that those who deal with the promoter must look to him for compensation.

The general doctrine that no one is authorized to contract for a corporation before it is formed, applies to all contracts with and by promoters. The promoter himself is liable on these pre-corporate contracts, unless otherwise expressly provided; but the corporation is not.¹³

Where an agent commits an assault in the discharge of his duty, he may be held responsible.

The agent in charge of the grounds of a fishing club in

¹¹ Lewis v. Tilton, 64 Iowa 220.

¹² Ray v. Powers, 134 Mass. 22.

¹³ Conynghton's "Corporate Organization and Management" (Edition of 1917), § 32.

Kentucky, assailed a party whom he accused of trespassing. The party assaulted brought suit for damages against the agent and the club, and got judgment against both.¹⁴

If the agent got into a quarrel independently, and not in the discharge of his duty, his principal would not be affected.

Sometimes, even when the agent acts in entire good faith, he may become personally liable for his blunders. For instance:

In a California case, Wilson, a broker, sold some mining stock for a customer. The stock turned out to have been stolen from a party named Swim, who brought suit against Wilson for the value of the stock. The court held that the principal who employed Wilson to sell the stock had no title and could give none to Wilson, who was therefore compelled to pay the value of the stock.¹⁵

Notes:

1. An agent is liable for fraudulent conduct.
2. An agent is liable for exceeding his authority.
3. An agent is liable if he does not disclose his principal.
4. An agent is liable if he represents a non-existent or irresponsible principal.
5. An agent is liable for wrongful acts within the scope of his employment.
6. An agent may be liable for blunders.

REVIEW QUESTIONS

1. What are the general duties of an agent to his principal?
2. Can C, an agent, in the course of his duties make any profit for himself?
3. When may an agent disobey orders?
4. A refuses to pay B commissions for sale of stock on the ground

¹⁴ *New Ellerslie Fishing Club v. Stewart*, 123 Ky. 8.

¹⁵ *Swim v. Wilson*, 13 Cal. 126.

that B received commissions from the parties who bought the stock. B proved that A knew at the time that B was also being paid by the buyers. Must A pay?

5. If an agent has not been paid promptly, can he collect money due his principal and pay himself?
6. May a lawyer act for both sides in a controversy? How would it be in negotiating a contract?
7. If money of the principal is deposited by an agent in his own name, can the agent's creditors take it?
8. Is an agent liable for money of his principal if he put it in his own cash drawer over night and it is stolen? If he puts it in a bank in his own name with a designation "Agent's Name, No. 2," to distinguish it from his own personal account, and the bank fails?
9. How should an agent execute negotiable paper in order that it may be binding on his principal and not upon himself?
10. What do you understand by the "apparent authority" of an agent?
11. A was a cashier of the Second National Bank. B was a depositor therein, and was on his way to the bank one day to make a deposit. When about half way to the bank he met the cashier, stopped him, told him that he was about to make the deposit, and asked him if he would take the money, there. The cashier agreed, took the money, made the proper entry in the deposit book, and handed it back to B. A, the cashier, however, did not put the money to B's credit, but kept it and converted it to his own use, and B sued the bank for the amount. Is he, or is he not, entitled to recover? Did the cashier have any apparent or real authority to receive the deposit?
12. When may the members of an unincorporated club be held for an agent's acts?
13. When is an agent personally liable to third persons?
14. What is the agent's liability on promissory notes signed?
 - (a) A, by B, Agent
 - (b) B, Agent for A
 - (c) B, Agent of A
 - (d) B, as Agent
 - (e) X Y Company, by A. President
15. Can a corporation be bound by contracts made before it was organized?

CHAPTER XXV

THE THIRD PARTY

§ 147. Third Party's Relation to Agent

Strictly speaking, the third party has no relation to the agent. The agent represents the principal, and the third party is dealing only with the principal. When the agent goes beyond his powers, then he makes himself responsible and may be held; the same is true when he represents an undisclosed principal, or a fictitious principal. The third party should know that the agent with whom he is dealing has authority to represent his principal, and how far this authority justifies the action of the agent.

A third party dealing with an agent in excess of his authority does so at his own risk. It is obvious that an agent cannot go beyond his authority. He is authorized for such general or special purposes as the principal indicates, and further than this he may not go.

Where an agent is empowered by a written instrument to do certain things, it is very plain that he has no authority to do anything more than what is specified; but, as in most cases of general agency the agent has the right to do everything incidental to his main agency business, it is sometimes not easy to tell what is in excess of his authority and what he has the right to do.

Law sold goods amounting to \$320 to Stokes. The sale was made by Sheridan, Law's salesman. The sale was on a credit till the end of the month. Next day the goods were shipped and a bill was enclosed in a letter. The letter, signed

by Law, said, "Please remit amount direct to me." The bill had on its face in red ink, "All remittances on account, or in settlement of bills, must be made direct to the principal." About a month later Stokes paid Sheridan the amount of the bill. Sheridan absconded with the money; Law brought suit and obtained judgment.¹

In this case the salesman had no authority to collect. The case was clear for the plaintiff, Law, because he had given notice on his billhead and in his letter of his limitation on the salesman's authority. Usually there would be more trouble in a case of this kind because the proof would not be so clear. The agent himself would be liable to suit by the third party; but in such a case the probability would be that the agent was judgment-proof or had left for fresh fields and pastures new.

In each case the third party should know for his own safety just what power the agent has to bind his principal, and that the principal is responsible. He cannot always rely on the representations of the agent himself as to the extent of his authority. It is the third party's duty to make due inquiry into the matter, as in case of a dispute later the burden of proof is on the third party to show that the agent had authority for the particular act.

Notes:

1. It is unsafe for a third party to deal with an agent without sufficient information as to his authority.
2. Care should be taken never to make payments to an unauthorized agent.
3. Where salesmen are not expected to collect payment, customers should be informed of the fact.
4. In dealing with an agent, it is necessary to know whom he represents and how far his authority extends.

¹ Law v. Stokes, 32 N. J. L. 249.

§ 148. Third Party's Relation to the Principal

The third party is really dealing with the principal, and the agent is merely the means of communication. When the contract is signed, the name of the agent is attached as agent, and the principal, not the agent, is bound. Therefore the relation between the third party and the principal is the same as between any other parties to a contract.

The third party is brought into the contract relation as a principal, and after that in most cases the agent is disregarded. The principal and the third party contract with each other, and, if the contract has not been executed, each has the right to compel the performance or to recover damages for any breach or failure in performance. In any dispute in regard to the contract, the resulting suit will be between the parties, and the agent will not figure save as a witness able to give material evidence. If there has been fraud or false representation on either side, the fact that the transaction has been negotiated through an agent does not affect the liabilities or the remedies.

Note:

1. When dealing through an agent, the third party should bear in mind that it is the principal with whom he contracts.

REVIEW QUESTIONS

1. How can a person dealing with an agent ascertain his authority? Why is it hard to tell what the agent has a right to do?
2. With whom does the third party really contract? If any suit arose, who would be the parties?
3. When does an agent make himself responsible to the third party?

CHAPTER XXVI**TERMINATION OF AGENCY****§ 149. Termination by Fulfilment**

The agent's authority is terminated when he completes the purposes of his agency, or at the expiration of the period for which he was engaged. It is obvious that if an agent has been employed to purchase a farm and the farm has been purchased, the agent's authority is ended; or if a salesman has been engaged for a year to sell goods, it is plain that the agency, unless renewed, terminates at the end of the year. Generally, the rule is that the agency ends at the termination of the period for which the agent has been engaged, or the completion of the undertaking for which he has been retained. ✓

The principal should in some way inform those who have been dealing with the agent that the agent no longer has authority to act. If the principal fails to do this, and the agent continues to act, the principal is bound. ✓

Note:

1. An agency terminates naturally (a) when the term ends, or (b) when the undertaking is completed.

§ 150. Termination by Either Party

The contract of agency may be terminated at any time by either the principal or the agent. It is obvious that the contract between principal and agent (like any other contract) may terminate at any time by agreement of the parties. It is also true that the contract (since it is one of mutual trust and confidence) may be terminated at will by either one of the parties against the consent of the other party, except in the

case of an agent having an interest in the subject matter; in which event the principal cannot terminate the relation without the agent's consent. (See § 152.)

If the principal and the agent contracted for a certain period of time or for a certain undertaking, and the principal revoked the agent's authority without good cause, the former would be liable to suit for damages by the agent for breach of contract.

Where there is employment for a definite period of time, express or implied, and the agent is discharged without cause before the expiration of the period, the principal will be liable to the agent as in the breach of any other contract; in such cases the agent may elect to treat the contract as rescinded and bring an action to recover the value of his services and money expended.¹

The agent can renounce his employment at any time. The courts will not force a man to work for another against his will. If, however, the agent has agreed to act for a certain time, or to do some particular thing, he may be liable to pay damages if he breaks off before the expiration of the period. Also, if he tries to act for someone else in the same line of business before the expiration of the term, it is probable that the principal could obtain an injunction to prevent his working for a competitor. In a contract of agency, there is often inserted a clause providing that the agent shall not leave the employ of the principal and represent anyone else in the same line of business for a specified period of time after his contract terminates. (See § 138.)

If the subject matter of an agency is destroyed, the contract is thereby terminated. A case of this kind would occur when a building which is to be leased by an agent is burned before the lease is effected.

¹ Glover v. Henderson, 120 Mo. 367.

Notice of Revocation. So far as the agent is concerned, the act of revocation becomes operative only from the time he has actual notice thereof; notice to third parties without notice to the agent will not effect a revocation as to the agent. Conversely, a notice only to the agent is not effective as to third parties. The acts of the agent in dealing with third parties without notice are binding on the principal. Whatever is sufficient to put an agent or third party on inquiry will serve as a legal notice of revocation.

Notes:

1. Either party may terminate a contract of agency at any time.
2. Either party breaking a contract of agency for a specified period or undertaking without just cause is liable in damages.
3. An agent who breaks his contract may be prevented during the term of the contract from taking employment with a business competitor.

§ 151. Termination by Disability

An agent's authority is revoked by the death, insanity, or bankruptcy of his principal; in like manner the relation is destroyed by the death or disability of the agent. This is a principle of universal application. When a man dies, all contracts of agency cease at once; all powers of attorney, and every authority to anyone else to act for him are terminated. If in ignorance of his principal's death an agent did business for him, the business would be void and of no effect.

A case which often happens is that of a person of advanced years who gives personal property to an agent to deliver to someone else and then dies before the property has been turned over. In such cases the courts hold that the agency is revoked by the death of the principal, and the gift cannot take effect.

✓✓

In an Illinois case, Mrs. Trubey had her lawyer take from a bank vault a metal box of jewels and securities. She made parcels of these and designated to whom each parcel was to go. Then she put them in charge of her lawyer, but set no time for delivery. He receipted for them and placed them in another vault. Within three months Mrs. Trubey died. The matter came before the courts for adjudication. It went to the Supreme Court of Illinois, which held that the lawyer was undoubtedly Mrs. Trubey's agent to deliver the property; but when she died the agency was revoked by that fact, and that, as the property had not been delivered, it belonged to her estate and the people designated had no claim to it. The court expressed regret that it was not possible under the rules of law to give effect to what Mrs. Trubey evidently intended. It would seem that her lawyer was much at fault.²

The death of the agent also terminates the relation. When the relation of principal and agent is broken up by the sickness or other disability of the agent, the condition will be the same as when any other employee finds his term of employment broken by disability. In all such cases the general rule is that the agent or the employee is entitled to recover for the time he acted, whatever the services were worth to the principal or the employer.

In a New York case it was held that when an agent is prevented by sickness or death from completing his contract, he or his executor is entitled to the value of the services actually rendered.³

Insanity of the principal has the same effect as death. If insane, a principal can no longer contract himself, and neither can he contract by an agent. The insanity of the agent terminates the relation because he has no longer the capacity to represent his principal.

² Trubey v. Pease, 240 Ill. 513.
³ Wolfe v. Howes, 20 N. Y. 197.

The bankruptcy of the principal, and in some cases of the agent, would destroy the relation. In the case of bankruptcy, the bankrupt can no longer continue his business, but it is taken over by the court or the trustees in bankruptcy; and as he cannot do business himself he cannot do it through an agent. Insolvency would not have this effect. (See Chapter LXXXI.)

If the principal parts with the subject matter, that terminates the agency.

Notes:

1. An agent can act only for a party who can act for himself.
2. An agent's authority ends when the capacity of the principal to contract ends.
3. An agent's incapacity to act ends the relation.

§ 152. An Agent with an Interest

An agency coupled with an interest cannot be revoked by the principal nor will his death or insanity revoke it. When the agent is also himself interested in the matter to be accomplished, it places him in a different relation to the principal; and the principal cannot at will destroy the relation. If, for instance, an agent is employed to sell a horse, and the agreement is that he is to advance the principal one-half the price and pay himself when he sells the horse, the principal cannot prevent him from selling the horse. The agent would have an interest in the matter himself, and could go on and do that which he had agreed to do. ✓

The interest that causes a power of attorney to survive after death must be an interest in the subject matter of the agency and not in that which is produced by the exercise of the power. ✓ N/B

Note:

1. An agent with an interest in the property itself cannot be discharged, as he is to that extent a partner with the principal. ✓

REVIEW QUESTIONS

1. How may the contract of agency terminate? If an agent continues to act after his engagement has ended, does he bind his principal?
2. How is it possible to prevent an agent's going to work for a competitor when his engagement terminates? If the principal revokes the authority of his agent, who must be notified?
3. What is the general rule as to the death or insanity of the principal? Why? What is the rule as to compensation when the contract is terminated by the death or disability of the agent?
4. What is the effect of bankruptcy? Of insolvency? What is the distinction between bankruptcy and insolvency?
5. A borrowed money of B, giving B as collateral a power of attorney to collect certain rents. A died. Was B's power of attorney terminated? Is the tenant's obligation discharged by payment to B?
6. What is the effect when an agent has an interest in the subject matter? Why?

PART V

NEGOTIABLE INSTRUMENTS

CHAPTER XXVII

FORM AND INTERPRETATION¹

§ 153. The Quality of Negotiability

The negotiable instruments in ordinary use are: (1) promissory notes, (2) drafts or bills of exchange, and (3) checks. In all the states that have adopted the Uniform Bills of Lading Act, bills of lading are made negotiable instruments. The *quality of negotiability* lies in the fact that any person, not an original party, who takes a negotiable instrument in the ordinary course of business, may sue on it when due, in his own name, and the person who is the obligor will be compelled to pay it. Negotiable instruments are also called "commercial paper."

Any ordinary contract may be assigned by executing an assignment, but in such case the assignee merely steps into the shoes of the person who assigned it, and if there has been any reason, as between the parties, why it should not be paid, this can be set up against the assignee, if he brings suit, exactly as if he were the original party. If this were true of a note, no one would dare to discount it, for, when the time of payment came, any reason for non-payment that might exist between the original parties could be used to destroy the whole value of the note. Hence, for the convenience of business, the law of negotiable instruments has grown up, to protect the man who takes them "in due course of business."

"In due course of business" means taken before its date for payment, for a valuable consideration and without knowledge of anything that would affect the title. The law says:

¹For forms of negotiable instruments, see Chapter CIII, Forms 34-43.

A holder in due course holds the instrument free from defect of title of prior parties, and free from any defenses available to prior parties among themselves and may enforce payment of the instrument for the full amount thereof against all parties liable thereon.

Non-Negotiable Contracts. A simple agreement or promise to pay a sum of money could not be enforced unless there was a valid consideration for the promise, and an assignee would have no more rights than the original holder. That is, if suit were brought on such an agreement, and the maker could prove that no consideration had been given, he would not be made to pay. The same rule would hold as between the *original parties* to a note, and the defense of no consideration would prevent collection, but if the note or other negotiable paper had been negotiated, that is, if it had passed in the course of business into the hands of an *innocent holder for value*, the matter of consideration would not figure, and the full amount would have to be paid.

Notes, drafts, and checks are used so extensively that the laws governing their transfer are of great importance. When the subject of uniform laws was brought up, the law of negotiable instruments was the first to be reformed and the one most widely adopted. The Uniform Negotiable Instruments Law as devised by the commissioners having the work in hand has at the present time been adopted by every state and territory except Georgia and Porto Rico.

In discussing this subject, the Uniform Negotiable Instruments Law has been followed as closely as possible, and the quotations are from the text of the law.

The following are the requirements for negotiable instruments as laid down in the law itself:

§ 1.—An instrument to be negotiable must conform to the following requirements:

1. It must be in writing and signed by the maker or drawer.
2. Must contain an unconditional promise or order to pay a sum certain in money.
3. Must be payable on demand, or at a fixed or determinable future time.
4. Must be payable to order or to bearer; and
5. Where the instrument is addressed to a drawee, he must be named or otherwise indicated therein with reasonable certainty.

§ 154. Signature

The signer of an instrument is liable, and anyone signing a trade-name or assumed name will be liable personally. A duly authorized agent can sign for his principal, and if he is duly authorized and signs as agent or in a representative capacity, he will not be personally liable. If, however, he signs as agent without disclosing his principal, he will be personally liable.

The indorsement of a corporation or an infant passes the property in the instrument, though the corporation or infant may not be liable. A note signed by a minor cannot be collected.

A forged signature is absolutely void and passes no right or title.

§ 155. Unconditional Promise

The Uniform Law allows two variations of the requirement of an unconditional promise or order to pay.

§ 3.—An unqualified order or promise to pay is unconditional within the meaning of this act, though coupled with:

1. An indication of a particular fund out of which reimbursement is to be made, or a particular account to be debited with the amount; or
2. A statement of the transaction which gives rise to the instrument.

But an order or promise to pay out of a particular fund is not unconditional.

§ 156. Certainty as to Sum

It is to be noted that the law allows certain variations as to the certainty of the sum:

§ 2.—The sum payable is a sum certain within the meaning of this act, although it is to be paid:

1. With interest; or
2. By stated instalments; or
3. By stated instalments, with a provision that upon default in payment of any instalment or of interest, the whole shall become due; or
4. With exchange, whether at a fixed rate or at the current rate; or
5. With costs of collection or an attorney's fee, in case payment shall not be made at maturity.

§ 157. Payable on Demand

§ 7.—An instrument is payable on demand:

1. Where it is expressed to be payable on demand, or at sight, or on presentation; or
2. In which no time for payment is expressed.

Where an instrument is issued, accepted or indorsed when overdue, it is, as regards the person so issuing, accepting or indorsing it, payable on demand.

§ 158. Certain Future Time

The law clearly expresses that the time must be certain.

§ 4.—An instrument is payable at a determinable future time, within the meaning of this act, which is expressed to be payable:

1. At a fixed period after date or sight; or
2. On or before a fixed or determinable future time specified therein; or
3. On or at a fixed period after the occurrence of a specified event, which is certain to happen, though the time of happening be uncertain.

An instrument payable upon a contingency is not negotiable, and the happening of the event does not cure the defect.

§ 159. Payable to Order

§ 8.—The instrument is payable to order where it is drawn payable to the order of a specified person or to him or his order. It may be drawn payable to the order of:

1. A payee who is not maker, drawer or drawee; or
2. The drawer or maker; or
3. The drawee; or
4. Two or more payees jointly; or
5. One or some of several payees; or
6. The holder of an office for the time being.

Where the instrument is payable to order the payee must be named or otherwise indicated therein with reasonable certainty.

§ 160. Payable to Bearer

§ 9.—The instrument is payable to bearer:

1. When it is expressed to be so payable; or
2. When it is payable to a person named therein or bearer; or
3. When it is payable to the order of a fictitious or non-existing person, and such fact was known to the person making it so payable; or
4. When the name of the payee does not purport to be the name of any person; or
5. When the only or last indorsement is an indorsement in blank.

§ 161. The Date

The law provides that the date on the face of the instrument is presumed to be the true date, and that it may be ante-dated or post-dated, provided it is not done for a fraudulent purpose. It is also provided that if a date is left blank, any holder may insert the true date. If an instrument is issued with any material particular left out, the holder may fill in the blanks.

A note dated on a legal holiday other than Sunday is valid. In New Jersey a contract, bill, note, or check drawn or made, accepted or delivered, on Sunday is void. In Massachusetts a note or check made on Sunday is void as between the original parties. In Connecticut, a defense to an action on a note made on Sunday will be good if the consideration is restored. Both Massachusetts and Connecticut protect the bona fide holder of a note made, accepted or drawn on Sunday. In New York a note dated and delivered on Sunday is valid.

§ 162. Consideration

All negotiable paper is presumed to have been given for a valuable consideration, and everyone whose signature appears on it is presumed to have become a party for a valuable consideration. Any consideration that would support an ordinary contract will be sufficient. An existing debt would be a good consideration for a note or draft in settlement.

Absence or failure of consideration is not a good defense against a holder in due course for value.

If a gambling debt has been paid with a negotiable instrument, the maker can generally set up the defense of illegality only against the original party. In a few states, however, gambling contracts are absolutely void, and there the maker of such an instrument cannot be held, but the indorser can, inasmuch as an indorser warrants the legality of the instrument.

Anyone having a lien on a negotiable instrument, is a holder for value to the extent of his lien.

§ 163. Delivery

A negotiable instrument is incomplete until delivery. If an incomplete instrument is completed and delivered without authority of the maker or drawer, it will not be valid unless

it comes in due course to an innocent holder for value, in which case it will be presumed conclusively to be good.

§ 164. Rules of Construction

§ 10.—The instrument need not follow the language of this act, but any terms are sufficient which clearly indicate an intention to conform to the requirements hereof.

§ 17.—Where the language of the instrument is ambiguous, or there are omissions therein, the following rules of construction apply:

1. Where the sum payable is expressed in words and also in figures and there is a discrepancy between the two, the sum denoted by the words is the sum payable; but if the words are ambiguous or uncertain, references may be had to the figures to fix the amount;
2. Where the instrument provides for the payment of interest, without specifying the date from which interest is to run, the interest runs from the date of the instrument, and if the instrument is undated, from the issue thereof;
3. Where the instrument is not dated, it will be considered to be dated as of the time it was issued;
4. Where there is a conflict between the written and printed provisions of the instrument, the written provisions prevail;
5. Where the instrument is so ambiguous that there is doubt whether it is a bill or note, the holder may treat it as either at his election;
6. Where a signature is so placed upon the instrument that it is not clear in what capacity the person making the same intended to sign, he is to be deemed an indorser;
7. Where an instrument containing the words "I promise to pay" is signed by two or more persons, they are deemed to be jointly and severally liable thereon.

§ 165. Allowable Provisions

§ 5.—An instrument which contains an order or promise to do any act in addition to the payment of money is not negotiable. But the negotiable character of an instrument otherwise negotiable is not affected by a provision which:

1. Authorizes the sale of collateral securities in case the instrument be not paid at maturity; or
 2. Authorizes a confession of judgment if the instrument be not paid at maturity; or
 3. Waives the benefit of any law intended for the advantage or protection of the obligor; or
 4. Gives the holder an election to require something to be done in lieu of payment of money.
- But nothing in this section shall validate any provision or stipulation otherwise illegal.

§ 166. Non-Essentials

§ 6.—The validity and negotiable character of an instrument are not affected by the fact that:

1. It is not dated; or
2. Does not specify the value given, or that any value has been given therefor; or
3. Does not specify the place where it is drawn or the place where it is payable; or
4. Bears a seal; or
5. Designates a particular kind of current money in which payment is to be made.

But nothing in this section shall alter or repeal any statute requiring in certain cases the nature of the consideration to be stated in the instrument.

REVIEW QUESTIONS

1. Give a succinct but clear idea of commercial paper. If the assignee of an ordinary contract has to bring suit to enforce it, what may happen? What is meant by "due course of business"?
2. What are the five requirements for negotiable instruments? What are the usual negotiable words?
3. How should an agent sign a note?
4. What effect has a minor's note? A minor's indorsement?
5. Would a note payable from "rents for March, 1919, from the maker's apartment house, No. 154 Clinton Avenue, Baltimore, Maryland," be negotiable?

6. Is a note payable in instalments good? Is a note good that adds costs of collection?
7. Would a note payable ninety days after the death of the maker be negotiable? What if it were payable ninety days after the payee came of age?
8. Is a note with no time expressed good?
9. Is a note or a check invalidated if dated on a legal holiday? Dated on Sunday? Explain fully.
10. A affixes his signature to a blank paper and delivers it to B for the purpose of converting it into a negotiable note. B writes a larger amount and a shorter time than agreed on. Is A liable to a holder in due course without notice?
11. C pays a note that apparently bears his signature as maker. Later he finds that the signature was forged. May he recover the money paid? State the principle.
12. A bank discounts a note having a genuine indorsement, but forged signature of maker. Who bears loss?
13. If in a note there is a conflict between words and figures as to sum payable, what prevails? As between printed words and written words which prevails?
14. Is it necessary that a note or a bill should contain the words "value received"? That it should be dated?
15. What provision can be made in a note as to the sale of collateral securities? What are "collateral securities"?

CHAPTER XXVIII

NEGOTIATION¹

§ 167. Method of Negotiation

§ 30.—An instrument is negotiated when it is transferred from one person to another in such manner as to constitute the transferee the holder thereof. If payable to bearer it is negotiated by delivery; if payable to order it is negotiated by the indorsement of the holder completed by delivery.

§ 31.—The indorsement must be written on the instrument itself or upon a paper attached thereto. The signature of the indorser, without additional words, is a sufficient indorsement.

§ 32.—The indorsement must be an indorsement of the entire instrument. An indorsement, which purports to transfer to the indorsee a part only of the amount payable, or which purports to transfer the instrument to two or more indorsees severally, does not operate as a negotiation of the instrument. But where the instrument has been paid in part, it may be indorsed as to the residue.

§ 168. The Indorser's Contract

The contract of any one who indorses negotiable instruments is that he warrants to all subsequent holders in due course:

1. That the instrument is genuine.
2. That he has good title to it.
3. That all prior parties had capacity to contract.
4. That the instrument is, at the time he indorses it, valid and subsisting.

¹ For forms of indorsement, see Chapter CIII, Forms 36, 44.

He also warrants that on presentment when due it will be accepted or paid or both according to its tenor, and that if it be dishonored and the necessary protest and notice be given, he will pay the amount thereof to the holder or to any subsequent indorser who may have to pay it.

§ 169. Blank or Special Indorsement

§ 33.—An indorsement may be either special or in blank; and it may also be either restrictive or qualified, or conditional.

§ 34.—A special indorsement specifies the person to whom, or to whose order the instrument is to be payable; and the indorsement of such indorsee is necessary to the further negotiation of the instrument. An indorsement in blank specifies no indorsee, and an instrument so indorsed is payable to bearer, and may be negotiated by delivery.

§ 35.—The holder may convert a blank indorsement into a special indorsement by writing over the signature of the indorser in blank any contract consistent with the character of the indorsement.

§ 170. Restrictive Indorsement

§ 36.—An indorsement is restrictive, which either:

1. Prohibits the further negotiation of the instrument; or
2. Constitutes the indorsee the agent of the indorser; or
3. Vests the title in the indorsee in trust for or to the use of some other person.

But the mere absence of words implying power to negotiate does not make an indorsement restrictive.

§ 37.—A restrictive indorsement confers upon the indorsee the right:

1. To receive payment of the instrument;
2. To bring any action thereon that the indorser could bring;
3. To transfer his rights as such indorsee, where the form of the indorsement authorizes him to do so.

But all subsequent indorsees acquire only the title of the first indorsee under the restrictive indorsement.

§ 171. Qualified Indorsement

§ 38.—A qualified indorsement constitutes the indorser a mere assignor of the title to the instrument. It may be made by adding to the indorser's signature the words "without recourse" or any words of similar import. Such an indorsement does not impair the negotiable character of the instrument.

§ 172. Conditional Indorsement

The payee is not concerned about a conditional indorsement. Such an indorsement affects the rights of only those who take the instrument after the indorsement. A conditional indorsement imposes some condition on payment, as "Pay to Henry Alford upon delivery of motor truck, on March 1, 1920. Mark Anderson."

In such a case, the payee may take no notice of the condition and may pay any lawful holder of the note whether the condition has been fulfilled or not. But any holder of such a note would hold it, or any amount paid him upon it, subject to the rights of the conditional indorser.

§ 173. Effect of Indorsement

An instrument payable to bearer may be indorsed specially to some particular person and after that may again be passed on by delivery.

§ 41.—Where an instrument is payable to the order of two or more payees or indorsees who are not partners, all must indorse, unless the one indorsing has authority to indorse for the others.

§ 42.—Where an instrument is drawn or indorsed to a person as "cashier" or other fiscal officer of a bank or corporation, it is deemed *prima facie* to be payable to the bank or corporation of which he is such officer; and may be negotiated by either the indorsement of the bank or corporation or the indorsement of the officer.

§ 43.—Where the name of a payee or indorsee is wrongly designated or misspelled, he may indorse the instrument as therein described, adding, if he think fit, his proper signature.

§ 44.—Where any person is under obligation to indorse in a representative capacity, he may indorse in such terms as to negative personal liability.

§ 45.—Except where an indorsement bears date after the maturity of the instrument, every negotiation is deemed *prima facie* to have been effected before the instrument was overdue.

§ 46.—Except where the contrary appears every indorsement is presumed *prima facie* to have been made at the place where the instrument is dated.

REVIEW QUESTIONS

1. What is the difference between assigning a simple contract, and negotiating a note or other commercial paper? What is the form?
2. What is a contract of indorsement? What obligation is assumed by the indorser?
3. If an instrument payable to bearer is indorsed specially to some particular person and after that is passed on by delivery, can the holder by delivery collect from the special indorser or the special indorsee?
4. Give pro forma illustrations of the following indorsements of promissory notes and show the purpose and effect of each indorsement: (a) in full, (b) conditional, (c) restrictive, (d) qualified.
5. What is the procedure where the name of a payee or indorsee has been misspelled or his initials are not given correctly?

CHAPTER XXIX

RIGHTS OF HOLDER

§ 174. Holder in Due Course

The Uniform Negotiable Instruments Law uses the phrase "a holder in due course" to express the idea of an innocent holder for value, that is, one who has taken the instrument without knowledge of anything unusual in connection with it and who has given a valuable consideration for his title. Such a holder of a negotiable instrument may sue on it in his own name.

§ 52.—A holder in due course is a holder who has taken the instrument under the following conditions:

1. That it is complete and regular upon its face;
2. That he became the holder of it before it was overdue, and without notice that it had been previously dishonored, if such were the fact;
3. That he took it in good faith and for value;
4. That at the time it was negotiated to him he had no notice of any infirmity in the instrument or defect in the title of the person negotiating it.

§ 53.—Where an instrument payable on demand is negotiated an unreasonable length of time after its issue, the holder is not deemed a holder in due course.

§ 54.—Where the transferee receives notice of any infirmity in the instrument or defect in the title of the person negotiating the same before he has paid the full amount agreed to be paid therefor, he will be deemed a holder in due course only to the extent of the amount theretofore paid by him.

§ 175. Defects of Title

§ 55.—The title of a person who negotiates an instrument is defective within the meaning of this act when he obtained the instrument, or any signature thereto, by fraud, duress, or force and fear, or other unlawful means, or for an illegal consideration, or when he negotiates it in breach of faith, or under such circumstances as amount to a fraud.

§ 56.—To constitute notice of an infirmity in the instrument or defect in the title of the person negotiating the same, the person to whom it is negotiated must have had actual knowledge of the infirmity or defect, or knowledge of such facts that his action in taking the instrument amounted to bad faith.

§ 176. The Rights of a Holder in Due Course

A holder in due course of a negotiable instrument is in a strong position. He has a good claim against any of the prior parties to the instrument regardless of any claim they may have for fraud, duress, lack of consideration, and, with a few exceptions, illegality. Of course, if the holder knew of any of these defects before taking the instrument, he would not be a holder in due course. If he occupies the position of holder in due course, he may take any negotiable instrument without inquiry and without any fear that in the event of having to bring suit he may meet with any of the defenses named.

§ 57.—A holder in due course holds the instrument free from any defect of title of prior parties and free from defenses available to prior parties among themselves, and may enforce payment of the instrument for the full amount thereof against all parties liable thereon.

§ 177. Effect of Irregular Transfer

If a holder of negotiable paper not "a holder in due course" brings suit to collect, he must face all the defenses

that can be brought up in a suit between the original parties. There may have been fraud as between the original parties or other cause why the note should not be paid. If it has come into the hands of an innocent holder, he can collect notwithstanding, but if the holder did not take the instrument in due course, any of the defenses existing between the original parties may be used against him.

§ 97.—In the hands of any holder other than a holder in due course, a negotiable instrument is subject to the same defenses as if it were non-negotiable. But a holder who derives his title through a holder in due course, and who is not himself a party to any fraud or illegality affecting the instrument, has all the rights of such former holder in respect of all parties prior to the latter.

If negotiable instruments payable to bearer are lost, the finder does not have good title, but if he manages to transfer them to an innocent holder for value, such holder has a good title. This rule does not apply to certificates of stock or other instruments that are only quasi-negotiable.

REVIEW QUESTIONS

1. What is a "holder in due course"? If a person takes an undated note, is he a holder in due course? If a note is overdue, will an indorsee be a holder in due course? If the indorsee pays only half the face of the note, will he be a holder in due course?
2. Distinguish the position of a bona fide holder of a negotiable instrument and an assignee of an assignable obligation in the event of their suing for their respective claims.
3. An indorsee who has notice of illegality of note indorses it to a bona fide holder for value, and takes up the note at maturity. Is he entitled to sue maker?
4. If A lost bearer bonds and certificates of stock indorsed in blank, and C took them from the finder in good faith, paying value, what interest would C have?

CHAPTER XXX

LIABILITY OF PARTIES

§ 178. Liability of Maker

The maker of a promissory note engages to pay the note he issues according to its tenor and effect, and he is primarily liable. Should it be paid by one of the indorsers, the maker will later have to reimburse him for what he has paid. The maker is liable even if the note is not presented to him when due. He remains liable upon it until it is outlawed by the Statute of Limitations. He is not liable on a forged instrument or on an incomplete instrument lost or stolen and filled out by the finder or thief.

§ 34.—Where an incomplete instrument has not been delivered it will not, if completed and negotiated without authority, be a valid contract in the hands of any holder, as against any person whose signature was placed thereon before delivery.

§ 42.—Where a signature is forged or made without authority of the person whose signature it purports to be, it is wholly inoperative, and no right to retain the instrument, and to give a discharge therefor, or to enforce payment thereof against any party thereto, can be acquired through or under such signature, unless the party against whom it is sought to enforce such right is precluded from setting up the forgery or want of authority.

§ 179. Liability of Indorser

When any person other than maker, drawer, or acceptor places his signature upon an instrument he is deemed to be an indorser.

§ 64.—Where a person, not otherwise a party to an instrument, places thereon his signature in blank before delivery, he is liable as indorser in accordance with the following rules:

1. If the instrument is payable to the order of a third person, he is liable to the payee and to all subsequent parties.
2. If the instrument is payable to the order of the maker or drawer, or is payable to bearer, he is liable to all parties subsequent to the maker or drawer.
3. If he signs for the accommodation of the payee he is liable to all parties subsequent to the payee.

§ 65.—Every person negotiating an instrument by delivery or by a qualified indorsement, warrants:

1. That the instrument is genuine and in all respects what it purports to be;
2. That he has a good title to it;
3. That all prior parties had capacity to contract;
4. That he has no knowledge of any fact which would impair the validity of the instrument or render it valueless.

§ 67.—Where a person places his indorsement on an instrument negotiable by delivery he incurs all the liabilities of an indorser.

The contract of the indorser, like that of the drawer, is a conditional promise to pay. The conditions are that the prior parties fail to pay and that due notice of their failure be given.

The amount of the indorser's liability is the face of the instrument, and in addition, interest and notary's protest fees.

Indorsers are liable in the order in which they indorse, but evidence may be admitted to show that they have agreed otherwise as between or among themselves.

§ 180. Discharge of Indorser

If the holder and maker agree to an extension of the time of payment, it will discharge any indorsers of the instru-

ment. Mere delay in bringing suit does not have this effect.

As set forth in subsequent chapters, failure to present the note for payment on the due date will discharge the indorsers, and if the note is presented for payment and not paid, the indorsers must be duly notified if they are to be held.

§ 181. Liability of Guarantor

If instead of the usual indorsement or indorsement in blank, a guaranty is made, as, "For value received, I hereby guarantee payment of within note, Warren Colwell," the effect is that the guarantor waives the usual presentment and notice of non-payment.

Some courts hold that this contract of guaranty is not strictly negotiable and will not pass to any but the next holder. The usual form of indorsement is in most cases preferable. A guarantor of collection instead of payment is liable only if the maker is sued promptly and then cannot by legal means be made to pay.

§ 182. Liability of Accommodation Signer

Accommodation paper is distinguished from business paper by lack of consideration. Thus a man may give his note to a friend, in order that the latter may discount it and so secure funds to meet a temporary emergency. In the same way he may write his acceptance upon a draft (see § 205), or indorse a note made by a friend in need of funds. The distinction is often made between real instruments and accommodation paper that the former represent past and the latter future transactions. In the first case, a man gives a note for goods received; in the second, he indorses a note in order that its maker may receive goods.

Since the one who is accommodated is not a holder for value, he cannot sue upon accommodation paper. But anyone who for accommodation signs his name to any negotiable

instrument as maker, drawer, acceptor, or indorser, is liable to any holder for value. The accommodation signer is liable even though the holder knows that he signed for accommodation and that he received no value. But an accommodation signer is never liable to the party accommodated.

REVIEW QUESTIONS

1. Give the liability, to holder in due course, of the maker and of the indorser of a promissory note.
2. What is the effect of indorsement of a negotiable instrument in this form, "Henry Baldwin, without recourse"?
3. How far is an indorser liable when the maker becomes insolvent and settles with his creditors for 50 cents on the dollar?
4. What action of the holder will discharge an indorser? What steps must be taken to hold indorsers?
5. A deposits grain at an elevator and takes a negotiable receipt which he sells to B. Then A gets the grain by misrepresentation from the warehouseman and sells to C. Would B have any claim on C? What rights would B have?
6. How does a guarantor of negotiable paper differ from an indorser?
7. The holder of a demand note agreed that he would not transfer the note or put it in the bank for collection, but would hold it till such time as he wanted the money, and would then make demand for it. Upon this the defendant, at the maker's request, indorsed the note. The plaintiff forbore suit for over two years. Is the indorser liable? State the legal principle involved.
8. Directors of a company indorse its note to enable it to make a loan. The note is paid by the first indorser. What claim for indemnity has he against the subsequent indorsers?
9. A signs what he thinks is a subscription blank for a set of books, in reality the paper is a cleverly contrived promissory note. This note is negotiated. It passes into the hands of a purchaser for value. In your state can this holder force the maker to pay the note?

10. B is induced to buy an automobile by false representation. He gives a note in part payment. When he finds that he has been defrauded, he notifies the payee that he will not pay the note, but meanwhile the payee has negotiated the note to another, who is an innocent purchaser for value. Can the latter force B to pay the note?
11. C dates a check and signs his name, but does not fill out the other spaces. The check is stolen and filled out by the thief. It passes into the hands of an innocent party who pays value. Will that party be able to collect the check from C?

CHAPTER XXXI

PRESENTMENT FOR PAYMENT

§ 183. Necessity of Presentment

The maker or acceptor of a negotiable instrument is liable without presentment for payment, but if the drawer and indorsers are to be held, it must be presented for payment.

Presentment must be made on the due date except in the case of demand paper which must be presented within a reasonable time. "Days of grace" were three extra days which were formerly allowed for the payment of commercial paper.

§ 184. Requirements for Presentment

§ 72.—Presentment for payment, to be sufficient, must be made:

1. By the holder, or by some person authorized to receive payment on his behalf;
2. At a reasonable hour on a business day;
3. At a proper place as herein defined;
4. To the person primarily liable on the instrument, or if he is absent or inaccessible, to any person found at the place where the presentment is made.

§ 73.—Presentment for payment is made at the proper place:

1. Where a place of payment is specified in the instrument and it is there presented;
2. Where no place of payment is specified, but the address of the person to make payment is given in the instrument and it is there presented;
3. Where no place of payment is specified and no address is given and the instrument is presented at the usual place of business or residence of the person to make payment.

4. In any other case if presented to the person to make payment wherever he can be found, or if presented at his last known place of business or residence.

§ 74.—The instrument must be exhibited to the person from whom payment is demanded, and when it is paid must be delivered up to the party paying it.

If the instrument is payable at a bank, presentment must be made during banking hours unless payee has no funds there, in which case any hour before the closing of the bank will do. If the bank holds such a note for collection and it is in the bank on its due date, no other presentment is necessary.

Speaking generally, it is the bank's duty to use all diligence in respect to negotiable paper left with it for collection. This involves prompt presentation for acceptance if acceptance is necessary; and presentation for payment on the date of payment within banking hours, at the place specified in the instrument, if any, and if not, at the maker's place of business. In case the instrument is not paid on presentation when due, it is the bank's duty to protest it, if not otherwise instructed by the owner, and to give due notice of its dishonor to all indorsers, and to do any other things necessary for the collection of the instrument. The bank is liable for any failure in its performance of its duty.

§ 185. Presentment Excused

§ 82.—Presentment for payment is dispensed with:

1. Where, after the exercise of reasonable diligence presentment as required by this act cannot be made;
2. Where the drawee is a fictitious person;
3. By waiver of presentment, express or implied.

§ 186. When Due

§ 85.—Every negotiable instrument is payable at the time fixed therein without grace. When the day of maturity falls upon Sunday or a holiday, the instrument is payable on the

next succeeding business day. Instruments falling due on Saturday are to be presented for payment on the next succeeding business day, except that instruments payable on demand may, at the option of the holder, be presented for payment before twelve o'clock noon on Saturday when that entire day is not a holiday.

§ 86.—Where the instrument is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to begin to run, and by including the date of payment.

If an instrument is due a month or more after date, a calendar month is meant. A note dated February 16 and due a month from date will fall due on March 16, whether in leap year or any other year.

REVIEW QUESTIONS

1. What were "days of grace" as understood in the law relating to commercial paper?
2. What is the legal effect of failure to make presentment for payment on the due date of a promissory note?
3. What is a bank's liability with reference to negotiable papers left with it for collection?
4. A note held by the bank at which it is payable is not paid at maturity. Must there be a presentment and demand of payment?
5. How is the due date of commercial paper determined? What is the rule if the due date falls on a holiday? On a Saturday?
6. How should presentment be made?
7. Why is the maker or acceptor liable even though the instrument is not presented on the due date?
8. Would it be proper under any circumstances to present a note for payment to the maker, who was walking along the street?
9. If the maker cannot be found, what is the situation?

CHAPTER XXXII

NOTICE OF DISHONOR

§ 187. Necessity of Notice

§ 89.—Except as herein otherwise provided, when a negotiable instrument has been dishonored by non-acceptance or non-payment, notice of dishonor must be given to the drawer and to each indorser, and any drawer or indorser to whom such notice is not given is discharged.

The holder must give notice. If the note has been left with a bank for collection, it as agent for the holder would give notice. If the note has been given to a notary for protest, he usually gives the required notice.

§ 188. Effect of Notice

§ 92.—Where notice is given by or on behalf of the holder, it enures for the benefit of all subsequent holders and all prior parties who have a right of recourse against the party to whom it is given.

§ 93.—Where notice is given by or on behalf of a party entitled to give notice, it enures for the benefit of the holder and all parties subsequent to the party to whom notice is given.

§ 189. Form of Notice

The notice may be informal provided it is so clear as not to mislead the party to whom it is sent. It may even be oral. It may be delivered personally or by mail. It may be given to the party or to someone acting as his authorized agent.

§ 190. Time of Notice

Where both parties reside in the same place, the time when notice must be given is as follows:

§ 103.—1. If given at the place of business of the person to receive notice, it must be given before the close of business hours on the day following;

2. If given at his residence, it must be given before the usual hours of rest on the day following;

3. If sent by mail, it must be deposited in the post-office in time to reach him in usual course on the day following.

If the parties reside in different places, the rule is as follows:

§ 104.—1. If sent by mail, it must be deposited in the post-office in time to go by mail the day following the day of dishonor, or if there be no mail at a convenient hour on that day, by the next mail thereafter.

2. If given otherwise than through the post-office, then within the time that notice would have been received in due course of mail, if it had been deposited in the post-office within the time specified in the last subdivision.

Where a notice is duly deposited in the post-office, within the specified time, it is deemed a good notice, whether or not it reaches its destination.

The party receiving notice is allowed the same period of time to send notice to antecedent parties that was permitted to the last holder.

§ 191. Where to Send Notice

If the party has given an address, notice should be sent there; otherwise—

§ 108.—1. Either to the post-office nearest to his place of residence, or to the post-office where he is accustomed to receive his letters; or

2. If he lives in one place, and has his place of business in another, notice may be sent to either place; or

3. If he is sojourning in another place, notice may be sent to the place where he is sojourning.

But where the notice is actually received by the party within the time specified in this act, it will be sufficient, though not sent in accordance with the requirements of this section.

Delay in giving notice is excused when caused by circumstances beyond the control of the holder.

§ 192. When Notice Is Not Required

Notice of dishonor is not required to be given to the drawer in the following cases:

§ 114.—1. Where the drawer and drawee are the same person;

2. Where the drawee is a fictitious person or a person not having capacity to contract;

3. Where the drawer is the person to whom the instrument is presented for payment;

4. Where the drawer has no right to expect or require that the drawee or acceptor will honor the instrument;

5. Where the drawer has countermanded payment.

§ 193. Protest

A protest is practically a certificate by a notary that the instrument has been presented, a demand for payment made, and such demand refused, and that the notary has protested against such non-payment and has sent notice of such protest and non-payment to the party concerned. This is followed by the official signature and seal of the notary. The object of protest is to hold those secondarily liable. The acceptor of a draft and the maker of a note, are principal debtors and are held with or without protest.

Foreign bills of exchange must always be protested, as

the notary's certificate is the only admissible evidence of the bill's dishonor.

In case a bank protests a draft ahead of time, it is liable to the acceptor for injury to his credit.

Any negotiable instrument may be protested for non-acceptance or non-payment, but such procedure is not legally required, except for foreign bills of exchange. The costs of a protest are added to the amount to be paid by any party liable on the instrument. Fees for protest are fixed by statute. Protest is advisable, as the notary will send the required notice and put the evidence of non-payment and due notice in the best possible shape for use, if litigation results.

If it is desired to avoid the expense of protest, it is necessary to attach notice of "No Protest" to any instrument sent through a bank for collection, otherwise the bank will give its notaries a chance to make fees.

REVIEW QUESTIONS

1. Notice of dishonor is to be given by whom? To whom must notice be sent?
2. What is the effect if notice is not given?
3. What is the rule as to the time of notice: (a) Where the parties live in the same place? (b) Where they reside in different places?
4. If notice was sent by mail and owing to a train wreck the letter was destroyed, would the person to be notified be released?
5. Who pays the cost of protest? What does the term "protest" mean?
6. E holds an unpaid note and gives due notice to fourth indorser, who gives due notice to second indorser, who gives due notice to first and third. Who are liable to E?
7. What form of negotiable instruments legally require protest and for what defaults?

CHAPTER XXXIII

DISCHARGE OF NEGOTIABLE INSTRUMENTS

§ 194. When Discharged

A negotiable instrument is discharged:

- § 119.—1. By payment in due course by or on behalf of the principal debtor;
2. By payment in due course by the party accommodated, where the instrument is made or accepted for accommodation;
3. By the intentional cancellation thereof by the holder;
4. By any other act which will discharge a simple contract for the payment of money;
5. When the principal debtor becomes the holder of the instrument at or after maturity in his own right.

A person secondarily liable on the instrument is discharged:

- § 120.—1. By an act which discharges the instrument;
2. By the intentional cancellation of his signature by the holder;
3. By the discharge of a prior party;
4. By a valid tender of payment made by a prior party.

Also by release of the principal debtor or by extension of his time of payment. Merely letting the time of payment go by without beginning suit is not granting an extension.

§ 195. When Not Discharged

When paid by a party other than the maker or drawee, the instrument is not discharged, but the party paying it may enforce payment against all prior parties on the instrument.

§ 196. Effect of Alteration

Any material alteration, unless made with the assent of all parties concerned, will invalidate the instrument, except as against the parties who made the alteration.

Any alteration is material which changes:

- § 125.—1. The date;
- 2. The sum payable, either for principal or interest;
- 3. The time or place of payment;
- 4. The number or the relations of the parties;
- 5. The medium or currency in which payment is to be made;

Or which adds a place of payment where no place of payment is specified, or any other change or addition which alters the effect of the instrument in any respect, is a material alteration.

REVIEW QUESTIONS

1. How is liability of indorser affected when maker and holder agree to extend time of payment?
2. If an indorser pays a note to avoid suit, what rights has he?
3. An instrument which has been materially altered is in due course in the hands of a holder not a party to the alteration. May he enforce payment according to original tenor?
4. What alterations in negotiable instruments are material?
5. A negotiable note executed and delivered by A to B passes in due course to and is indorsed in blank by B, C, D, and E. F is the last holder and strikes out C's indorsement. What is the liability of C, D, and E?
6. Under what circumstances is an indorser relieved from liability as such?

CHAPTER XXXIV**PROMISSORY NOTES****§ 197. Definition**

A note is described and defined by the Uniform Negotiable Instruments Law as follows:

1. It is a written promise without condition,
2. By the maker to another, or to the maker's order,
3. To pay a sum certain in money to order or to bearer,
4. On demand at a fixed or determinable future time.

§ 184.—A negotiable promissory note within the meaning of this act is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time a sum certain in money to order or to bearer. Where a note is drawn to the maker's own order, it is not complete until indorsed by him.

§ 198. Liability of Maker

The liability of the maker of a promissory note may vary in nine different ways as follows:¹

1. Where the note is signed with his name by another at his direction, he is liable in the same manner as though he had personally signed the note.
2. Where he signs and delivers the note without consideration to the party who seeks to enforce it, he is not liable if he raises the question and properly makes the defense of lack of consideration.

¹C. P. A. Problems, Vol. I, page 235. This differentiation of liability is far-fetched and even fantastic. It is brought in here only because required to answer a question actually asked.

3. Where he signs and delivers the note without consideration and it subsequently comes into the hands of a holder in due course, he is liable.
4. Where his signature is forged by the party who seeks to enforce it, he is not liable.
5. Where his liability is sought to be enforced by one to whom it was negotiated for value by the party forging his signature, he may set up that the instrument was forged even against a holder in due course.
6. Where the instrument sued on is not dated, does not state that it is given for value, and does not specify the place where it is drawn or the place where it is payable, he is liable.
7. Where the holder of the note has, without the assent of the maker, changed its date, he is not liable on the note either in its present or its original form. Alteration of date is a material alteration.
8. Where the holder of the note has, without the assent of the maker, changed its place of payment, he is not liable. Place of payment is a material term of the note.
9. Where the holder of the note has unintentionally marked it cancelled, he is liable, provided the holder can prove that the cancellation *was* unintentional. The burden of proof is on the holder.

§ 199. Interest

The holder of a note on which interest is payable at fixed periods need not protest or take any action in case of default of interest payments. He may simply wait until the principal is due and then proceed to collect the whole amount of the note.

The legal rate of interest at the place where payment is to be made will determine the rate if not specified in the note.

§ 200. Demand Notes

If an indorser on a demand note is to be held, payment must be demanded within a reasonable time; the maker will be bound even if demand is not made for a very long time. The only limitation protecting the maker is that imposed by the Statute of Limitations. It is held that the statute begins to run from the time a cause of action accrues. In the case of a demand note, this is from the time the note is delivered by the maker to the payee.

§ 201. Effect of Renewal

If a new note is taken in exchange for an unpaid one, it operates only as a suspension of the old debt, not as an extinguishment of it, unless by special agreement. In case the new note is not met, the old note may be sued upon. This is true whether or not the old note is retained by the creditor.

§ 202. Note as a Gift

If a gift is made of a promissory note payable to the order of the donee, and he should indorse it and transfer it to an innocent holder for value, it would be good. The donee could not collect by suit himself because he would be met by the defense of no consideration.

If the note were made payable to the donor's order and he indorsed it in blank, the immediate party who received it and gave no value in return could not enforce payment of the note.

REVIEW QUESTIONS

1. If a note is given to A and the donor dies, can A collect? If A has discounted the note at the bank can the bank collect?
2. What are the essentials of a promissory note?
3. The holder of a demand note failed to present it for two years. Then the maker had vanished. Could the holder collect from the indorsers?
4. What are nine different ways in which a note may be issued or handled, and the varying liabilities of the maker in each case?

CHAPTER XXXV

BILLS OF EXCHANGE AND ACCEPTANCES¹

§ 203. Definition

§ 126.—A bill of exchange is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a certain sum in money to order or to bearer.

An inland bill is one drawn and payable within the state. Any other is a foreign bill. A bill of exchange when accepted becomes an acceptance.

A draft is an order to pay money—it includes bills of exchange, checks and all other forms of orders to pay money.

§ 204. Liability of Maker, Drawer, and Acceptor

The maker of a draft is called the drawer. He is analogous to the maker of a note. The maker of a promissory note engages to pay the note he issues according to its tenor and admits the existence of the payee and his capacity to indorse. The drawer of a draft assumes the same liability, if it is not paid by the drawee and the necessary proceedings on dishonor are taken. A draft may be presented to the drawee before payment to make sure that he will accept its obligations.

§ 205. Acceptance

§ 132.—The acceptance of a bill is the signification by the drawee of his assent to the order of the drawer. The acceptance must be in writing and signed by the drawee. It

¹ For forms see Chapter CIII, Forms 42-44.

must not express that the drawee will perform his promise by any other means than the payment of money.

An acceptance is an engagement to pay a bill of exchange as requested by the drawer. An acceptance is usually according to the tenor of the bill, in which case it is called a general or absolute acceptance.

Qualified Acceptance. A qualified acceptance is sometimes given.

§ 141.—An acceptance is qualified which is:

1. Conditional; that is to say, which makes payment by the acceptor dependent on the fulfillment of a condition therein stated;
2. Partial; that is to say, an acceptance to pay part only of the amount for which the bill is drawn;
3. Local; that is to say, an acceptance to pay only at a particular place;
4. Qualified as to time;
5. The acceptance of some one or more of the drawees, but not of all.

The holder may require that the acceptance be written on the bill. It should not be written on another piece of paper. The drawee has twenty-four hours to decide whether he will accept or not. If he destroys the bill or fails to return it, he will be held to have accepted it.

Mode of Acceptance. Upon presentation of the bill of exchange, the drawee, if he wishes to pay the order according to its terms, may do so by writing across its face the word "Accepted," followed by signature and date. When this is done by the drawee he becomes the acceptor, and thereby agrees to pay the bill at maturity, according to its tenor, without qualifying conditions.

Effect of Acceptance. The effect of the acceptance of a bill of exchange is to constitute the acceptor the principal debtor. The bill of exchange becomes, by the acceptance,

similar to a promissory note—the acceptor being the promissor, and the drawer standing in the relation of an indorser or surety.

§ 206. Dollar Acceptance

By the term "dollar acceptance," as used in international trade, is meant an accepted bill of exchange drawn in American dollars. The term has become familiar in this country since the enactment of and amendments to the federal reserve banking law, which created a system of modern bills of exchange for American business. Prior to the establishment of this system, it was the usual custom to draw bills of exchange in pounds sterling. Most of the international trade was financed through London; that is to say, financial institutions of London granted to traders acceptance credits which authorized the drawing of bills of exchange on such institutions. By this agreement, the trader was assured that the London bank would accept his bill. Thus, such institutions lent their *credit*, for which they charged a commission, and a merchant in London or even in South America would deal with both his creditors and his debtors in this country in terms of pounds sterling.

Under the amendment of September 7, 1916, to the Federal Reserve Act, in addition to the power to accept bills involved in the exportation and the importation of goods, federal reserve banks have the power to accept bills drawn upon them by foreign banks or bankers in the same way that London banks accommodate foreign traders. The reserve banks may accept drafts or bills of exchange drawn upon them, having not more than three months to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board, by banks or bankers in foreign countries or dependencies or insular possessions of the United States, for the purpose of furnishing dollar exchange as re-

quired by the usages of trade in the respective countries, dependencies, or insular possessions.

It is likely that in years to come New York will be as important financially and commercially as London; and, as the use of a decimal currency has much to recommend it, there is good reason to believe that the future will see dollar exchange more generally used than sterling exchange has been in the past. It is certain that every business man should understand clearly what is meant by "dollar acceptances," and its synonyms "dollar exchange," and "dollar credits," as the terms are used by bankers.

§ 207. Bank Acceptances

Under the federal reserve law, *member* banks of the federal reserve system are empowered to grant bankers' acceptance credits; that is to say, "Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months' sight to run."² A bankers' acceptance, as defined by the Federal Reserve Board, "is a bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits."

When the bank, trust company, firm, person or corporation, accepts the bill of exchange, it has loaned its credit, not its funds. The direct responsibility for the payment of the bill of exchange that has become an acceptance, rests on the bank or concern granting the acceptance credit. Such accepted bills of exchange are payable in our country and hence are known as "dollar acceptances."

§ 208. Domestic Bank Acceptances

The rules of the Federal Reserve Board are somewhat more rigid with regard to bank acceptance credits covering

² § 13 of the Federal Reserve Act.

domestic shipments. Such acceptances are used mainly to finance domestic transactions involving major staples. And the federal reserve law provides that "Any member bank (of the federal reserve system) may accept drafts or bills of exchange drawn upon it, having not more than six months' sight to run, exclusive of days of grace . . . which grow out of transactions involving the domestic shipment of goods, *provided* shipping documents³ conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples."

Such acceptances are known as dollar acceptances against domestic shipment of goods, or domestic bank acceptances.

§ 209. Trade Acceptances

In this country most of the credit business has been done on the open-account system whereby goods are sold at thirty, sixty, or ninety days, or in many cases without any definite time of payment. This system has many disadvantages. It compels the seller to carry the financial burden of the buyer and so ties up his capital for an indefinite period. Also, the expense involved in collecting slow accounts and granting extensions constitutes in the aggregate a heavy tax on business. All these disadvantages are eliminated by the use of the trade acceptance.

A trade acceptance is a bill of exchange drawn by the seller directly on the purchaser of goods, and accepted by the purchaser. The direct responsibility for the payment of the bill rests on the person, firm or corporation accepting the bill of exchange. The Federal Reserve Board has defined the

³ "Shipping documents" are all the documents required to prove title to the shipments—the bill of lading, insurance policy, consular invoice, and so on. *Principles of Foreign Trade*. Savary, page 306.

trade acceptance as a "bill of exchange, drawn by the seller on the purchaser, of goods sold and accepted by such purchaser."

Functions of the Trade Acceptance. Trade acceptances are instruments of credit, and when properly created are eligible for purchase by federal reserve banks. They thus add to the circulating medium, just as do eligible bank acceptances.

The extensive use of the trade acceptance in American business is urged as a remedy to cure the defects of the open-account system, as it provides the seller with an instrument which he may sell to his bank, broker, or other persons engaged in discounting such commercial paper, thus enabling him to keep liquid and mobile the capital that would otherwise be tied up in open book accounts.

§ 210. The Discount of Acceptances

Under Section 14 of the federal reserve banking law, and under rules and regulations prescribed by the Federal Reserve Board, federal reserve banks may purchase and sell in the open market bankers' acceptances and bills of exchange from banks, firms, corporations, or individuals.

It should be borne in mind that federal reserve banks proper do not "accept" bills of exchange, but may purchase acceptances in the open market (discount them), or may rediscount eligible acceptances for member banks.

§ 211. Rules for Discount of Bank Acceptances

§ 182.—A bankers' acceptance may be discounted with any federal reserve bank, under the following rules prescribed by the Federal Reserve Board:

1. The acceptance must have maturity at purchase of not more than three months.
2. The bill must have been drawn under credit opened

for the purpose of taking care of transactions involving

- (a) Foreign shipment of goods,
 - (b) Shipment within United States, provided bill is accompanied by shipping documents, or
 - (c) Storage within United States of readily marketable goods, provided acceptor is secured by proper receipt, or
 - (d) Storage within United States of goods actually sold, provided the bill is secured by pledge of such goods.
3. Or the bill must be drawn by a foreign bank or banker for the purpose of furnishing dollar exchange.

§ 212. Rules for Discount of Trade Acceptances

Federal reserve banks may purchase trade acceptances under the following rules prescribed by the Federal Reserve Board:

The bill must have arisen out of an actual commercial transaction, domestic or foreign; that is, it must be a bill which has been issued or drawn for agricultural, industrial, or commercial purposes or the proceeds of which have been used or are to be used for the purpose of producing, purchasing, carrying or marketing goods in one or more of the steps of the process of production, manufacture or distribution. It must have a maturity at time of purchase of not more than ninety days, exclusive of days of grace.

The word "goods" has been construed as meaning goods, wares, merchandise and all agricultural products including live stock.

§ 213. The Drawee

The drawee is not liable unless and until he accepts the bill. A bill may be addressed to two or more drawees, but not in the alternative, or in succession.

Where drawer and drawee are the same person, or the drawee is fictitious, or where the instrument is ambiguous, the holder may consider the instrument either a promissory note or a bill of exchange at his option.

§ 214. Presentment for Acceptance

Presentment for acceptance must be made:

§ 143.—1. Where the bill is payable after sight or in any other case where presentment for acceptance is necessary in order to fix the maturity of the instrument; or

2. Where the bill expressly stipulates that it shall be presented for acceptance; or

3. Where the bill is drawn payable elsewhere than at the residence or the place of business of the drawee.

In no other case is presentment for acceptance necessary in order to render any party to the bill liable.

Presentment for acceptance follows the general rules given for presentment for payment. (See Chapter XXXI.)

§ 215. Protest for Non-Acceptance

A foreign bill *appearing on its face to be such* must be protested on the day of its dishonor by non-acceptance, if the owner desires to hold the drawer and indorsers.

§ 153.—The protest must be annexed to the bill, or must contain a copy thereof, and must be under the hand and seal of the notary making it, and must specify:

1. The time and place of presentment;
2. The fact that presentment was made and the manner thereof;
3. The cause or reason for protesting the bill;
4. The demand made and the answer given, if any, or the fact that the drawee or acceptor could not be found.

§ 154.—Protest may be made by:

1. A notary public; or
2. By any respectable resident of the place where the

bill is dishonored, in the presence of two or more creditable witnesses.

§ 157.—A bill which has been protested for non-acceptance may be subsequently protested for non-payment.

Acceptance for Honor. An outside party may accept or pay a bill of exchange to save the credit of the drawee. In such case the acceptor makes himself liable, and if he must pay the bill, he has a right to be reimbursed by the person who should have paid it.

A bill payable in a foreign country would be protested according to the law of that country, and not according to the law of the place where the bill was made.

§ 216. Bills in a Set

§ 177.—Where a bill is drawn in a set, each part of the set being numbered and containing a reference to the other parts, the whole of the parts constitute one bill.

In such a case, the acceptance should be written on one of the sets and on one part only. If the drawee accepts more than one part, he may be held liable on each part as if it were a separate bill.

Usually, "where any one part of a bill drawn in a set is discharged by payment or otherwise, the whole bill is discharged."

When the acceptor of a bill drawn in a set pays it without requiring the part bearing his acceptance to be delivered up to him, and the part at maturity is outstanding in the hands of a holder in due course, he is liable to the holder thereon.

REVIEW QUESTIONS

1. What is a bill of exchange? An inland bill? A foreign bill? An acceptance? A draft?
2. What is a general acceptance? A qualified acceptance? What is the form of acceptance? Its effect?
3. What is meant by "dollar acceptances"? Why is the term significant?
4. What is a "bankers' acceptance" as defined by the Federal Reserve Board? What is necessary to make a bankers' acceptance eligible for discount at a federal reserve bank?
5. What are domestic bank acceptances?
6. What are trade acceptances? What are their functions? What is necessary to make a trade acceptance eligible for discount at a federal reserve bank?
7. When is presentment for acceptance of a bill of exchange necessary? What is the effect if such a bill is not presented?
8. What must protest of a foreign bill of exchange specify in order to hold drawer and indorsers? Who can protest a bill? Must a bill payable in a foreign city be protested by the law of the place where it is payable or by our Negotiable Instruments Law?
9. When bills are drawn in a set, what is the duty of the acceptor?
10. When must bills of exchange be presented for acceptance?
11. What is the rule as to protest of foreign bills of exchange?

CHAPTER XXXVI

BANK CHECKS

§ 217. Definition

A check may be defined as an unconditional order on a bank or a banker to pay on demand a specified sum to a person named or to his order, or to the bearer.

§ 185.—A check is a bill of exchange drawn on a bank, payable on demand. Except as herein otherwise provided, the provisions of this act applicable to a bill of exchange payable on demand apply to a check.

§ 218. Checks as Evidence of Payment

At the present time bank checks are used extensively as a substitute for cash payments. Few business men pay bills except by check. If actual money had to be constantly in transfer from one person to another, it would limit the amount of business that could be done at one time as the volume of cash in circulation is not adequate. The use of checks is an elastic medium of exchange that meets any possible demand of modern business.

The use of checks for the payment of debts affords the very best possible evidence of the fact of payment. A check given to pay a debt can only be cashed by the indorsement of the recipient, and his indorsement is the best evidence that he received the check and collected the money. This important function has been amplified in modern accounting by the use of voucher checks. A voucher check contains a clear statement of the exact obligation that the check is intended to

pay. Anyone who accepts a check with the statement on the check of the purpose to which the payment is to be applied is estopped thereafter from applying the payment to any other obligation or indebtedness. These checks are found in many forms.

The chief difference between an ordinary bill of exchange and a check is that the latter is always drawn on a bank and is always payable on demand. In addition, these points of difference are to be noted:

1. Grace is not allowed on a check.
2. The check must be drawn on funds actually in the bank.
3. The death of the drawer of a check revokes it.

§ 219. Signature of Drawer

The signature of the drawer is necessary, but it need not be placed at the bottom of the instrument. The order may be written under the signature, or some form such as "I, Henry Adams, direct you to pay to, etc.," may be used. The bank will have the signature on file and will be able to verify it in whatever form it occurs.

§ 220. Presentment for Payment

§ 186.—A check must be presented for payment within a reasonable time after its issue or the drawer will be discharged from liability thereon to the extent of the loss caused by the delay.

Thus if the holder keeps the check two weeks, and the bank fails before the check is presented, the liability of the drawer will be reduced in proportion to his total loss. That is, if the bank paid depositors only forty cents on the dollar, the holder of the check would be able to get only 40 per cent of its amount from the drawer. The courts will hold that

the other 60 per cent was lost to the holder by his own unreasonable delay. That is, the drawer is discharged from his liability to the holder only to the extent of the actual loss caused by the delay.

If the check must be sent to another place for collection, it should be started on the day following its receipt, and should go by a reasonably direct route. In some states it has been held that unreasonable delay is caused by sending a check over an indirect route through various correspondent banks.

§ 221. Bank's Relations with Depositor

The depositor in effect lends money to the bank, and the bank promises to repay it on demand. The bank is in no sense a trustee, unless there has been an express agreement to that effect.

The bank may charge against a depositor's account any notes of his which it holds and which are due. If the depositor has made an overdraft, the bank may apply subsequent deposits against it. A bill or note made payable at a bank authorizes the bank to pay it when due out of the depositor's account.

If the funds of a depositor on hand are not enough to pay a check in full, the bank need not pay it in part, but it may legally do so.

If the bank wrongfully refuses payment of a check, the drawer may sue for damages. If he is a business man and can prove that his credit has actually been injured, he may recover a substantial sum.

In general practice, a bank does not, except by special arrangement, take checks of depositors for collection, but accepts them outright for deposit. By this method the depositor is able to draw checks against his deposits without waiting until the bank has made sure that they can be collected. On the other hand, if the depositor does not wait a reasonable time for the collection of the checks he has deposited before

drawing against them, the bank may legally refuse to honor his checks.

If a depositor gives a check dated some days ahead and it is presented to the bank before its date, the bank will pay it or certify it at its own peril.

§ 222. Bank's Relations with Holder

§ 189.—A check of itself does not operate as an assignment of any part of the funds to the credit of the drawer with the bank, and the bank is not liable to the holder unless and until it accepts or certifies the check.

The holder of an uncertified check has ordinarily no rights against the bank. If the bank refuses to pay when it has funds of the drawer on hand, the depositor may sue the bank for damages to his credit, but the holder's recourse is only against the drawer of the check.

Even if the bank knows that the check was given for an illegal consideration, as in payment of a wager, the bank must cash it, and the drawer will have no claim against the bank for so doing. The bank will pay checks in the order of their presentment. If two or more checks are presented at the same time, the bank may pay in whatever order it pleases.

§ 223. Revocation

The drawer has the right to stop payment on a check, and if the bank pays the check after it has been notified not to do so, it will be liable. The drawer alone has a legal right to order payment stopped, but a subsequent indorser who knows of fraud ought to inform the bank at once if he cannot reach the drawer. In such a case the bank will probably delay payment of the check until the matter has been cleared up.

Even though the drawer is successful in stopping payment

of a check, he will be liable to an innocent holder for value if the indorsements are proper.

After a check has been certified, payment may not ordinarily be stopped.

The death of the drawer will revoke a check, but the bank must have notice, on the general principle that agency ceases only after the agent has received notice. Insolvency, when the bank is notified of it, also acts as a revocation.

§ 224. Certification

When a bank certifies a check, it assumes the obligation formerly held by the drawer. The bank will not certify unless it accepts the signature of the drawer as correct, and unless it has funds of the drawer on hand with which to pay; and as soon as it certifies it sets aside the proper amount from the drawer's account and holds it for the holder of the check. Under the Negotiable Instruments Law certification must be in writing. There is no legal obligation on a bank to certify any check for anybody. It is a matter of courtesy and convenience.

§ 187.—Where a check is certified by the bank on which it is drawn, the certification is equivalent to an acceptance.

§ 188.—Where the holder of a check procures it to be accepted or certified, the drawer and all indorsers are discharged from liability thereon.

Acceptance or certification of a check discharges the drawer, but if the drawer takes his own check to the bank for certification, he still remains secondarily liable, in case the certification be refused for any reason, or the bank becomes insolvent.

If a bank becomes insolvent, the holder of a certified check simply ranks among the other creditors.

§ 225. Fraud

The bank's agreement with the depositor is that it will pay out money on his account only on his order. If it honors a forged signature, therefore, it must bear the loss. But in New York, if a bank is not notified within one year after the return of a forged or raised check it cannot be held liable. The bank's liability is to the drawer, not to the payee or subsequent indorsers.

The drawer cannot hold the bank for a loss if he has been negligent in drawing the check or has delivered the check to the wrong person, or if he has signed and allowed to go into circulation a check with unfilled blanks, or if he has so negligently filled in a check that insertions might readily be made. The depositor should always examine his pass-book and vouchers carefully, and report promptly any errors he may discover. The bank will not be liable to a drawer whose acts amount to acquiescence in what the bank has done.

If a raised check is paid by a bank, it must bear the loss as against the drawer, unless his negligence in filling in the amounts made possible the forgery. As against the person to whom the money has been paid, the bank must bear the loss unless he was a party to the forgery or unless he can return the money to the bank without making his situation worse than it would have been had the bank refused payment. That is, if the payee has not yet done anything that he would not have done if payment had been refused, the bank may recover. In most cases, however, he will have delivered goods, given up security or otherwise have done something that he would not have done if the bank had refused payment.

If the amount is altered and the bank pays out money in good faith, it will be able to recover from the one who got the money. Even in case of alteration before certification, the bank will be able to recover from the one to whom payment was made. In case a check is raised after certification, if the

bank's carelessness was not responsible for the alteration or the payment, it will be able to recover the excess paid from an innocent holder to whom it paid the raised amount. Recovery is allowed in these cases because the bank is not supposed to warrant the body of the instrument by certifying it, but only the drawer's signature, the sufficiency of the funds, the existence of the payee and his capacity to indorse. In New York and Pennsylvania the bank's certification is a warrant only of the signature and the funds.

The bank after certifying a check will be liable to a holder in good faith, even though the funds are insufficient or the signature is forged. It will be liable also to such a holder even though the payee is fictitious or the blanks fraudulently filled. If a certified check has been stolen or lost, even though advertised, a holder in good faith will be able to recover.

An overdraft is not usually a criminal offense. If a man draws a check out with intent to defraud and with knowledge that he has no right to draw on the bank for the amount he does, he is guilty of stealing and is punishable accordingly.

§ 226. Checks as Gifts

If a check is given as a present, it will be valid, and subject to the defense of no consideration only as between the donor and donee. A check given as a gift *causa mortis* if not cashed or certified before the death of the donor, is revoked.

REVIEW QUESTIONS

1. Prepare a voucher check which is a negotiable instrument and evidence of the payment of a particular account or obligation.
2. What liability, if any, does a bank assume in paying a check to a holder who claims under a forged indorsement?
3. The maker of a promissory note sends the payee his check for the amount on the day of maturity. The payee has the check

- certified at the bank, but before it is paid the bank fails. Is the maker relieved of liability on the note by such certification? Give reasons for your answer.
4. A bank certified a check that had been altered by changing the date, name of payee, and raising the amount, and the bank subsequently paid the same to the defendant. Thereafter, the bank sued the defendant for the amount thus paid. Can it recover? Or does its certification of the check amount to a warranty of the genuineness of the body of the check as to payee or amount? Explain.
 5. Is a depositing and checking customer of a bank obliged to verify the balance shown by pass-book and vouchers?
 6. A retailer received a check for some goods. Before delivering them he telephoned the bank, and was told that the check was good. When he presented it for payment several hours later he found that other checks had been presented in the interval, and that the bank refused to honor his on the ground of insufficient funds in the depositor's account. Could the retailer rely on the telephoned approval of the bank as a certification?
 7. How should a check be sent by mail for collection? May the holder of an uncertified check sue the bank? If a bank wrongfully dishonors a check, has the drawer any remedy?
 8. What is the liability of the parties to a certified check? If a bank pays a check drawn on it by a depositor, after payment has been stopped, can the depositor recover the amount so paid?
 9. In your state what is the statutory limitation to a bank's liability for payment of a forged or raised check after its return to a depositor? Liability of a bank for payment of a check after drawer's death?
 10. Drawer of check has it certified, gives it to payee. Next day bank fails. Can payee collect from drawer?
 11. On the morning of January 5, A gave B a check for \$100 on account. On the evening of January 7 the bank suspends payment. B has not yet presented the check. Is A's debt cancelled?

PART VI

INSURANCE

CHAPTER XXXVII

FIRE INSURANCE

§ 227. The Parties

Insurance is a contract by one or more parties to indemnify another for some loss which he may suffer in the future. If there is no loss, the agreement does not have to be carried out. The consideration is the premium paid. The written contract is called the policy.

Insurance is of various kinds. Fire, life, and marine insurance are the oldest forms of insurance. In addition, there have grown up accident insurance, burglary insurance, boiler, plate glass, and tornado insurance, credit, fidelity, title, and liability insurance, and other special forms of insurance too numerous to mention.

There are two parties to a contract of fire insurance, the insured and the insurer. The person whose property is insured is called the insured. The person or company who insures it is called the insurer.

The insurer may be a single individual, or a corporation, or an unincorporated company; or a group of individuals may get together and insure themselves. This last system of insurance is called mutual insurance. It is quite common in the country districts, where there may be a township mutual insurance. Whenever a fire occurs all the members of the fund are assessed proportionately to pay the loss.

In the non-mutual companies a fund is created by the payment of premiums, out of which the insurer pays for the losses which may occur.

§ 228. Nature of the Contract

The contract of fire insurance is a speculative one; that is to say, the event on the happening of which the payment is to be made, namely, the fire, may never happen. The person insuring the building must himself have some actual financial interest in the property insured, otherwise it would amount merely to a bet on his part as to whether the building would be destroyed by fire or not, and would be a gambling contract and illegal. Also if the insured had no interest in the building, and the building were destroyed by fire, it would be to his profit, and such an inducement might lead to crime.

Note:

1. The exact interest of the person insured in the property should always be made a part of the policy, to show that the contract is legal.

§ 229. Agents

Most insurance is taken out through agents. These may be of two kinds: those who are paid by the company and are the agents of the company, and those who act merely as brokers and solicit insurance for various companies. Agents acting for the company bind the company by their agreements if they have the power to close contracts of insurance. If the contract is required to be sent first to the company for its approval, any agreement of the agent will not bind the company. Sometimes, by means of a short written agreement called a binder, or even by an oral contract, an agent may bind his company for a certain limited or contingent period, as for instance, until the policy is made out or while the company is investigating the risk.

The laws of the various states are very strict with regard to insurance agents. In most of them an agent must receive a license from the state superintendent of insurance, or what-

ever officer exercises corresponding duties, in order to be permitted to act.

Notes:

1. In dealing with an insurance agent, always find out whether the company has to approve his agreements before relying on any changes he offers to make in the policy, etc. It is always safer to get the authorization of the company itself.
2. If you wish to act as an insurance agent, look up the law to see if you must take out a license.
3. If you deal through a broker instead of an agent of the insurance company, the broker is your agent.

§ 230. The Policy

Policies may be either open or valued. Most fire insurance policies are open. In an open policy the amount payable in case of loss is not fixed by the policy but merely the limit up to which the company will be liable. Then when a fire occurs the company pays the actual value of the loss up to the amount named in the policy. A valued policy, on the other hand, specifies the amount payable in the event of a total loss. Life insurance policies are valued.

It is a legal maxim that "to include is to exclude" and the insurance policy covers only what is stated therein. Some states allow oral agreements with, or representations made by, agents to be proved in order to alter the policy, but others do not. If it is desired to make other agreements not included in the policy form, they may be made in written form and made a part of the policy by referring to them in the policy.

Standard Forms of Policies. New York, Massachusetts, and some other states have a standard form of policy, which by law must be used by all insurance companies. Massachusetts adopted this form in 1881; New York in 1887. The Massachusetts form provides that a building must not be left

unoccupied for thirty days or the insurance will lapse. In New York it must not be left for over ten days. In addition, the New York form contains certain stipulations, including the following:

The company may replace or repair the property instead of paying the loss and may take damaged property by paying the full appraised value for it. It does not hold itself liable under certain circumstances, such as war or riot, usurped power, or destruction by order of civil or military authority; likewise it is released by the neglect of the insured to use all reasonable means to save his property when it is menaced by neighboring flames. It is not liable if the insured made any false representations or practiced any kind of fraud in procuring the contract. The policy does not cover such things as deeds, book accounts, and shares of stock, etc., which merely represent obligations to the insured, nor does it cover money. It does not cover a building after it or part of it has fallen from any cause other than fire. These provisions may not be altered.

If a building is left vacant for ten days, or a factory runs after ten o'clock at night or is shut down for more than ten consecutive days, the policy becomes of no effect, unless the policyholder shall have obtained a permit from the insurance company. This permit must be in proper form and must be attached to the policy. Any changes in the use or occupation of a building, or the installation of such things as electrical wires, gasoline stoves, etc., must be consented to by the company or the policy is void. In the absence of a provision to that effect, a policy is not nullified by the erection of neighboring buildings that increase the risk.

A common clause, known as "builder's risk" provides that mechanics such as gasfitters, plumbers, etc., may not be engaged to work upon a building without the consent of the company.

For the use or storage of inflammable or explosive substances, such as paint and gunpowder, in an insured building, a special permit is necessary.

The policy does not cover certain enumerated articles, such as jewelry, curios, office furniture, architects' plans, etc., unless they are expressly mentioned in the policy.

What the Policy Should Include. Every policy of fire insurance should include as full and accurate a description of the property covered as possible. It should also include the amount for which the insurance is taken out, the term for which the policy is to last, the rate of premiums and at what time payable, and any other conditions which the parties wish to make a part of the agreement. Personal property must be described as located at such and such a place; and if it is moved, a new policy must be taken out or the original policy extended to cover it, as the character of the building in which it is kept affects the risk very materially.

Cancellation. A fire insurance policy may be cancelled by either party upon five days' notice; a proportionate amount of the premium paid being returned to the insured when the company makes such cancellation.

Notes:

1. Everything you want included in the agreement should be put in writing and incorporated in the policy.
2. If the policy is a standard policy and the company's permission is obtained to make any changes in it, these should be in writing and made a part of the policy by a reference in it to the changes.

§ 231. Premiums

The premiums are the consideration the insured pays for the agreement to insure his property. They are based

on a certain percentage of the amount for which the property is insured and are payable periodically, generally either annually or semiannually. A failure to pay a premium when it is due causes the policy to lapse and be forfeited, but the company may consent to an extension of the time for its payment or may agree to take notes for the payment of premiums.

Note:

1. If an extension of time is procured for the payment of a premium, it is safest to have it in writing. Make your application for the extension by letter, retain copy, and enclose postage for a reply. The company's letter will be your protection.

§ 232. The Property Insured

The property insured may be either real or personal. A policy may cover both, as for instance a dwelling-house and furniture. A policy made out to cover "merchandise" or "household goods" will cover such as may be acquired later as well as those which the insured owns at the time of taking out the policy.

Insurable Interest. The party who insures a property must have what is known as an insurable interest in it. He may either own the property outright, or have some claim upon it, such as a lien or mortgage. The standard form of policy in New York provides that the insured must be the sole and absolute owner of the property, free from any claims of anyone else, but anyone who is not the sole and absolute owner may insure his interest with the company's consent.

If a mortgagee or trustee wishes to take out a policy, a clause must be inserted that the loss shall be payable "as his interest may appear." The company's consent must also be obtained to a chattel mortgage, or the policy will be void.

A man who insures another's property has an insurable interest therein and may protect himself by reinsuring it.

A man may have an insurable interest in property which he does not own at all. Thus a salaried agent whose employment is contingent upon the continued existence of a given property, may insure it. But the value of his indirect interest must somehow be determined and agreed to by the insurer and the insured. In like manner, a stockholder of a corporation has an interest, real though difficult to determine, in the property of the corporation.

Alienation. Any change in ownership or possession of property, including sale for taxes or under a lien, will make it necessary to assign immediately the policy to the new owner, unless he chooses to take out a new policy. Assignment must be with the consent of the insurance company and recorded on the company's books.

What May Be Insured. Any kind of tangible property may be insured. Deeds, bonds, shares of stock, book accounts, bank notes, promissory notes, and bills of exchange, etc., are not insurable. These merely represent an interest which the party has in some property and, if they are destroyed, the claim may be proved by witnesses without them. Money may not be insured; the United States Treasury will redeem what remains of it.

What May Be Insured Against. A fire insurance policy insures for damages other than those caused by actual flames. Injury due to the heat of a fire in an adjoining building would be recompensed, as would also damage caused by the means used to extinguish a fire, or damage caused by removing the goods to a place of safety even though it later developed that such moving need not have been done. To insure against damage by lightning where there was no actual ignition, a special lightning clause must be attached to the policy.

Floating Stock. A merchant may insure his stock with the understanding that it is to be replaced by other material of the

same kind. His policy would be known as a floating one, and in case of damage, he may recover on the stock on hand when the fire occurred, regardless of what stock was on hand when the policy was issued.

Coinsurance. A coinsurance clause stipulates that, in return for a reduced rate, the insured must insure his property up to a certain percentage of its value, usually 80 per cent, and if he fails in so doing he must himself bear a proportion of any loss, thus making him a coinsurer with the company of his own property.

For instance, if his property were worth \$10,000, an 80 per cent coinsurance clause would obligate him to carry insurance to the amount of \$8,000. If he carried only \$6,000 and a loss occurred, he would be paid only such a proportion of his loss as the insurance he carried bore to the amount he agreed to carry, in this case three-fourths. Therefore, if fire damaged his property to the extent of \$4,000, he would receive only three-fourths of this amount, or \$3,000.

Reinsurance. For the better distribution of risks, a company after writing a policy often insures itself for the whole or a part of the risk it has just insured. If then, the original insurer has to pay, the reinsurer is liable to the insurer for the amount paid, or for the proportionate part of it, as may have been agreed. The insurer may not reinsure for more than the original policy. The amount to be paid by the reinsurer is the amount the insurer has to pay, or a part of it, with one exception. If the reinsurer pays the claim of the insurer before the claim of the insured is settled, then it does not matter to the reinsurer what terms the insurer makes with the insured. If the insurer becomes insolvent, makes a final settlement and is discharged, he will receive from his reinsurer only what he paid. But when the insured has been paid off, then the other creditors can have no claim on what is due the insurer from the reinsurer unless the reinsurance has been

taken into account in making the calculations of dividends under which the insured was paid.

Notes:

1. In changing the location of personal property always be sure to take out a new policy.
2. In buying buildings of any kind, the first thing to do is to arrange for their insurance.
3. A person living in a house for which he is paying by instalments has an insurable interest in it.

§ 233. Warranties and False Representations

False representations are misstatements made to the company and its agents when applying for the policy, or afterwards as to any change in the condition of the property of which the company has a right to know. If such misstatements materially affect the policy they will render it void.

Concealment is the suppression of any material facts which the insurer does not know or is not presumed to know. Such suppression may be of the fact at the time application is made or of some later change in the condition which the insurer ought to know.

Any fact is material that might properly influence the insurer in taking or refusing the risk or that would affect the amount of the premium charged.

Warranties are representations which are included in the policy. They may consist in answers to a schedule of questions which are attached to the policy and made a part of it. If any of the warranties are false the policy is of no value. Even an inaccurate statement made through an honest mistake, if it is made a part of the policy, renders it useless.

Other Insurance. Misstatements as to other insurance where the policy is of the standard form will render it of no effect whether they are warranties or mere representations.

Increasing the insurance on the property increases the temptation to be careless or to have "accidental" fires, and the law is strict that the company must know of and consent to insurance on the property in any other company. Where a property is covered by policies in different companies, any one insurer is liable only for the proportion of the loss that his policy bears to the total amount of insurance.

Notes:

1. Be very careful to make only the most accurate statements in answer to any schedule of questions to be filled out in making application for the policy. If these statements are wrong, and the schedule is attached to and made a part of the policy, your policy may be of no value.
2. To conceal matters material to the risk may avoid the policy.

§ 234. Settlement of Losses

When a loss occurs the insured must at once notify the company and then make out an inventory of the damaged property, stating the value of each article separately. This inventory must be sworn to. The New York standard policy gives the company the option to require that it be confirmed by the certificate of a magistrate or of a notary public. In this inventory the insured must state if there are any other claims against the property; or, if it is partly owned by others, who they are and what is their interest in it, and what, to the best of his knowledge, was the cause of the fire.

The company usually sends out an adjuster to investigate the loss. He must be shown all the damaged property and any papers relating to its value, or plans, specifications, etc., which would aid in determining the value of the property destroyed. The insured must be ready to submit to any ex-

aminations which the company may wish to make and to make any relevant affidavits it may require.

If the insured and the company cannot agree on the amount necessary to cover the loss, the company and the insured each appoint one appraiser and the two go over the property and value it. They select an umpire who decides between them in case there is any dispute as to the proper valuation. Their decision settles the amount which the company is liable to pay.

A mortgagee has the right to recover from the insurance company whatever is due him under the mortgage at the time of the damage, provided of course the face of the policy covers the amount due and that the policy bears the customary mortgagee clause. This right, however, does not run with the land. That is, if the mortgagor sells the property subject to the mortgage, the buyer, who assumes the mortgage, may insure it without the mortgagee's having any interest in the policy. But if the buyer insures it, making the loss payable to the mortgagee, he may not revoke or cancel the insurance without the mortgagee's consent. In the same way, if a policy taken out by the owner, is made payable to the mortgagee as his interest may appear, his rights cannot be destroyed by any act of the owner. If the owner assumes to accept a settlement of a claim without the mortgagee's consent, he will not be bound by it.

Options Which the Company May Exercise. Under the standard policy in New York, the company has the right to replace or repair the property instead of paying for the loss. Or it may take the property on paying the appraised value for it. If the property is capable of being repaired, the company pays only the amount which is adjudged necessary to restore it to its former condition.

If the insured has any claims against persons other than the company for the value of the property, he must transfer them to the company when he is paid the amount adjudged

proper to cover the loss, and the company may sue and collect on the other claims.

Notes:

1. It is wiser to leave property in its damaged condition after a fire until the adjuster arrives. But if there is danger of its becoming more damaged by being left, it should be removed to a place of safety. The insured should take every precaution to keep the loss as low as possible.
2. Be sure to include everything in the inventory and to state its full value. It will be very difficult to prove any greater value afterwards.

REVIEW QUESTIONS

1. What is a contract of insurance?
2. Why must the person insuring have an interest in the property insured? Has a mortgagee an insurable interest?
3. What is the difference between an insurance broker and an insurance agent?
4. What is the distinction between an open and a valued policy?
5. What occurrences may invalidate a policy?
6. What phrase is used if a mortgagee insures property? What will be the extent of the mortgagee's recovery if the mortgage had been reduced before the fire occurred?
7. A notice of the premium due is sent to the insured with no mention of a penalty for failure to pay. Does policy lapse if payment is tendered one month late and refused by the company?
8. What is the meaning of an 80 per cent clause in a fire insurance contract or policy, and what would be the cash settlement by the insurance company in case the property insured inventoried at the time of the fire \$150,000 but was insured for only \$100,000? What would be the settlement if the property insured inventoried only \$75,000 but was insured for \$100,000?

9. What representations are material? What is a concealment and when must it take place in order to avoid the policy?
10. An insurance company fails, and can pay but 6 per cent of its liabilities. Some of its risks are reinsured. Is the solvent reinsurer liable for the whole amount insured by it, or only for the amount which the bankrupt insurer pays? Answer fully and give reasons.

CHAPTER XXXVIII

LIFE INSURANCE

§ 235. Nature of Contract

Life insurance today is one of the most important businesses in the country. Before the invention of the mortality tables the rates were high and the business was on too uncertain a basis to be widely utilized. With its present development it has become of the greatest value as a means of saving, investing, and protecting business. Its value as a protection against a dependent old age has caused governments throughout the world to become interested in it, different forms of old-age insurance being in use in various countries and among the state employees of Massachusetts.

This form of insurance has been under discussion for the past few years by the various state legislatures and commissions appointed for that purpose, but aside from Massachusetts has not actually come into being. The main objection, of course, to such insurance is that it will raise the taxes, and legislatures do not feel that the need is great enough to justify the increase of taxes at the present time.

§ 236. Insurable Interest

Like the contract of fire insurance, the contract of life insurance is a speculative one. If a person attempts to insure the life of someone other than himself, he must have an insurable interest in it, though this interest need not continue during the life of the insured nor exist at his death. One may, however, insure one's own life and make such insurance payable to a beneficiary who has no insurable interest in one's life.

An insurable interest in a human life is not easy to define. Generally the party who does the insuring must be related to the insured by such ties of blood, marriage, or contract that the death of the insured would materially injure him. A married couple have an insurable interest in each other's lives; a father has an insurable interest in the lives of his children because they might some day support him; a sister may insure her brother for similar reasons; a partner may insure the life of his copartner; or a creditor may likewise insure the life of a debtor.

§ 237. The Parties

The parties to a life insurance policy are: the person whose life is insured, or the applicant; the person for whose benefit it is insured, or the beneficiary; and the person or company insuring it.

Life insurance may be conducted either through a corporation, or through a fraternal organization, or it may be mutual. Many of the large life insurance companies are either mutualized, or are mutualizing. In a mutualized life insurance company, all excess over actual cost of insuring is later returned to the policyholders as dividends. In a stock corporation, this excess goes to the stockholders. Where a former stock company becomes mutualized, provisions are usually made by which the stockholders and policyholders are each to have a share in the dividends in proportion to what is determined to be their actual interest in the company.

Fraternal benefit insurance exists among the various masonic and other orders and in many business organizations. It is a form of mutual life insurance. When a benefit falls due, it is raised by assessment on the members in proportion to their rights to benefit by the fund, or else a fund is raised by assessment and kept on hand to meet the benefits as they become due.

§ 238. The Policy

Policies are of various forms. In participation policies, the accumulated surplus in any year is divided among the policies and the share of each is credited to it, to be paid over when the policy becomes due.

In non-forfeitable or incontestable policies, the company agrees that after a certain period of time the policy shall not be forfeited for any cause except non-payment of premiums. Courts will usually enforce this agreement. Of course, if the beneficiary has no insurable interest, the contract would have been illegal from the first and could not be enforced.

Policies may be whole life, that is, the premiums continue to be payable until the death of the person whose life is insured. If the policy is a participating one, the dividends may either be applied to reduction of the premiums, or may be accumulated, as the holder prefers.

Another form of policy is limited payment life. The premiums on this class of policy are so divided as to be payable within a limited number of years. After this the policy becomes a paid-up policy and is payable on the death of the person whose life was insured.

There are also endowment policies and term policies. The endowment policy is perhaps the most common form of policy. Under it, the amount is payable either at the end of a fixed term of years, or upon death in case of death before the expiration of that period. This policy operates both as an investment and a protection. At the end of the term the insured may, as a general rule, exercise his option to take out a paid-up policy and leave the money invested.

Term insurance is unlike endowment insurance in that it does not allow any accumulations, nor permit the holder to take out a paid-up policy at the end of the term. When the term has expired it simply lapses.

Term insurance is simply protection for a definite term at the lowest possible cost. Like fire insurance it covers the risk for the time specified and then ceases. It provides no accumulations to offset advancing age, the insured must assume this burden, nor does it provide cash, loan, extended insurance or paid-up values.¹

Double indemnity policies were first offered about 1912. These policies provide that in case of death by accident, the beneficiary shall receive twice the face of the policy. At first this double payment was made only in case of death by accident on a common carrier, but the policies now being written provide for double indemnity in case of death by any accident. In addition, these policies now provide that in case of permanent disability, payment of premiums shall be waived and one-tenth the face of the policy will be paid each year, and at death the full face of the policy will be paid.

Application and Examination. If the company does not consider the life a good risk, it has a right to reject the application. The applicant is required to answer questions on an application blank and to submit to a medical examination. As the application blank is made a part of the policy, any statements on it amount to warranties, and the policy will be of no value if any of them are false. If, otherwise than on the blank, the insured makes any false representations which have any effect on the risk or the insurance, the policy is void.

Notes:

1. A policy of life insurance should always be carefully read to make sure that the kind asked for has been issued. It is well to examine closely various forms and find out the advantages they offer before insuring. The laws of some states give more security to the insured than the laws of others.
2. Fraternal insurance has failed in many cases, be-

¹ Dunham on Insurance, I, 298.

cause new members ceased joining and those remaining could not pay the increased assessment.

3. To cheat the company by answering questions on an application blank falsely is useless. The policy will be worthless when the insurance is needed.

§ 239. Premium Rates

The premium rates in life insurance are worked out by means of the mortality tables. These are tables based on an examination of statistics, giving the probable length of life at certain ages. Accordingly a young person can take out insurance at a smaller premium rate than a middle-aged person. The rate increases as one grows older and death becomes more imminent.

If these premiums are not paid when they are due the policy becomes forfeited; but the company must give notice to the person whose life is insured, or to the assignee if the policy has been assigned, and notice to him again each time a premium becomes due. The company may extend the time of payment or take a note for the amount.

In fraternal insurance the members of the association are usually not charged premiums but are assessed on the basis of their interest in the common fund. Sometimes these assessments are made from time to time and a fund accumulated; more frequently they are made when some member dies and his family becomes entitled to the benefit.

Note:

1. It is much cheaper to take out insurance early in life.

§ 240. Agents

Life insurance agents, as well as fire insurance agents, must procure a license from the state department in charge of in-

surance. In New York these licenses have to be renewed every year. (See Part IV on the general subject of agency.)

§ 241. Right to Change Beneficiary

Unless there is a clause in the policy reserving the right to change the beneficiary, no change can be made without his consent in writing. The beneficiary has a vested right in the policy—one which he can himself transfer to someone else. In some states, even if he dies before the insured, the profits of the policy will go to the beneficiary's estate and no one else can be named.

The beneficiary cannot be changed without his consent if the insured has taken out the policy under an agreement with him, or if the beneficiary has paid any of the premiums.

The consent of the company must always be obtained to any change of beneficiary. This consent must be in writing.

Note:

1. The policy should always contain a clause permitting a change in the beneficiary. If such a change is not provided for, anyone taking the policy as security must get the written consent of the beneficiary to the arrangement.

§ 242. Assignment of Policy

A policy of life insurance belongs to the insured if he has taken it out and by its terms has the right to change the beneficiary, or to make his own estate the beneficiary. The beneficiary in such case has only a contingent interest, and has nothing he can assign to anyone else. If, however, under the terms of the policy the insured cannot change the beneficiary, then the beneficiary has a vested interest and he alone can assign it. The company must be notified of any assignment.

§ 243. Settlement of Losses

When he makes his claim for the proceeds of the policy, the beneficiary must send with it a proof of death filled out on one of the company's forms and certified by a physician.

Where there has been a change of beneficiaries or the policy has been used as security, there may be conflicting claims for the proceeds. If the various claimants can agree among themselves, the company will generally pay the loss to those who are admitted to be entitled to it, upon receiving releases from all the claimants. If there is a dispute which cannot be settled otherwise, it usually has to be decided in court.

The company will resist the payment of claims if there was any fraud in the procuring of the policy or if misrepresentations as to the health of the insured come to its knowledge. In one case known to the writer, the beneficiary in the proof of death made a statement as to the age of the insured person which differed from that made in the policy. The company discovered that there had been a misrepresentation and resisted the payment of the claim.

Suicide, unless committed within a year from the time the policy was taken out, does not generally excuse the company from payment. Many policies provide that if the insured is killed while engaged in the commission of crime or executed as a punishment for crime, the policy will not be payable. The death must be the result of the crime in order to render the policy void. Dying of apoplexy while attempting to hold up a train would not excuse payment.

Notes:

1. In order to make sure that the proceeds of a policy will go to the person whom the insured intends to benefit, without an expensive lawsuit, it is wisest, when making any change in a policy, to get a written release from any party who may be af-

ected by the change, and keep it attached to the policy.

2. Under the New York law, creditors can collect all insurance over the amount a \$500 a year premium will bring.

§ 244. Government Insurance for Soldiers and Sailors

At the entrance of the United States into the Great War, the government announced, as a substitute for the pension system, a plan of insurance for officers and men of the army, navy and marine corps. Under this plan, the government undertook the costs of administration, and offered term insurance on the monthly income plan. (See § 238.)

The term extended from the beginning of the war to five years after the declaration of peace. By the monthly income plan is meant a system of paying the beneficiary, not a lump sum to be kept as capital, but a monthly sum to be used as income, payment to run in this case, for a period of twenty years. By this system a man taking out the maximum insurance of \$10,000 would pay approximately \$6.50 per month for it, the rate increasing slightly each year. In case of his death from any cause his beneficiary (who must be a relative) receives \$57.50 each month until 240 payments have been made).

Within about six months after the armistice was signed, the government announced a plan of converting any of these term policies into one of six forms more closely resembling ordinary commercial insurance. The new forms offered protection to ex-soldiers, sailors and marines for the remainder of their lives. Conversion may be made at any time within five years after peace has been declared; if not made at all, the insurance simply stops.

The six policies now offered holders of the original term insurance are:

1. Ordinary life
2. Twenty-payment life
3. Thirty-payment life
4. Twenty-year endowment
5. Thirty-year endowment
6. Endowment at age of sixty-two

In all cases except where the policyholder lives to draw the endowment himself, the benefit is paid on the monthly income plan, payments covering twenty years. A disability clause is attached to all these policies, whereby if the policyholder is totally and permanently disabled, the government waives premiums and pays him for the remainder of his life, the monthly income his beneficiary would have had. This deprives the beneficiary of any payments except where the insured dies before 240 payments are made to him. In such a case, the beneficiary receives a monthly income for the remainder of the twenty years.

All matters relating to this subject are controlled by the Bureau of War Risk Insurance, Washington, D. C. In case the Bureau gives an adverse decision on any claim, appeal may be taken to the federal courts.

REVIEW QUESTIONS

1. What is meant by an insurable interest in another person's life?
2. What are the three methods of life insurance? Explain each.
3. Explain the following classes of policies: Participation, non-forfeitable, whole life, limited payment life, endowment, and term.
4. One Williams had a life insurance policy in the American Life Insurance Company for \$10,000. The policy provided that if the annual premium was not paid on the day it became due the policy should become void. Williams became ill and failed to pay the premium on the day it was due, and about a week

afterwards his son wrote the office of the company in care of the president, and told him that his father was ill, and asked that the time be extended. The president wrote back that if he would pay the premiums within one week it would be all right. Williams died the following day, and before the week elapsed, the son came and tendered the premium, which the company declined to receive, and denied any liability on the policy. Is the company liable thereon? Give your reasons for your answer?

5. Can the beneficiary be changed?
6. When can the beneficiary assign his rights?
7. Why did the government arrange to insure its soldiers and sailors?
8. Into what forms was this converted at the close of the war?

CHAPTER XXXIX

SUNDRY INSURANCE CONTRACTS

§ 245. Enumeration

In addition to fire and life insurance, there are sundry other insurance contracts, such as marine, accident, health, group, liability, title, burglary, plate glass, automobile, boiler, burial, credit, fidelity, hail, live stock, rent, strike, and tornado.

In all of these the policies call for certain representations which must be truthful; and proofs of loss must be made out and, as a rule, sworn to, when payment of a loss is claimed.

§ 246. Marine Insurance

This is the oldest form of insurance, older than either fire or life insurance. It originated in Lloyd's Coffee House in London, and the policy is known as Lloyd's. The policies were passed around among the dealers in insurance, and each took such share of any given risk as he cared to. These subscribers were called underwriters and in case of loss they were assessed in proportion to their subscriptions to pay the loss. The business is handled by regular incorporated companies today. Its object is to protect the insured against losses on a vessel at sea. Marine policies may also be taken out on ships traveling in any navigable waters.

The policy covers losses by fire, various forms of shipwreck including losses incurred in trying to avert shipwreck, and losses from piracy. The insured is by custom held to be in duty bound to give the insurer all information in his power with regard to the ship, the voyage, the cargo, or anything else that might affect the risk. If he conceals anything or

SUNDRY INSURANCE CONTRACTS

makes any false representations, the policy will not take effect. The person taking out marine insurance must fulfil the following requirements:

1. He must have an insurable interest in the goods or vessel insured.
2. He must warrant that the vessel is seaworthy.
3. He must warrant that the goods insured were in good condition when taken on board.

If any of these conditions are not met, the insurer will not be liable.

In a marine policy, the amount payable in case of loss is fixed by the policy, and no attempt at valuation is made unless the loss is incomplete. Marine policies also cover what is known as general average.

Proofs of loss, giving full particulars of the nature, amount, and cause of the damage must be made out and sworn to by the master and crew of the vessel; and then an investigation is made either by some government surveyor of the port, or by experts chosen by the parties to the contract. In the event of a dispute as to the amount of the damage, the damaged goods are sold at auction and the amount determined in that way. The insured must show bills of lading or other documents to prove his ownership of damaged goods, and the policy cannot be assigned without the underwriter's consent.

In the American Lloyd's policies it is provided that if there is any prior insurance on the vessel the underwriters shall be liable only to the extent that the prior policies do not cover the loss.

§ 247. General and Particular Average

From the earliest times, it has been the custom, where goods were jettisoned (i.e., thrown overboard at sea to save the vessel), for the other owners of merchandise on board and

the owners of the vessel to contribute proportionately to make good the loss. This is called "general average." In calculating the assessment the owner of the lost goods is included; it follows that he is never reimbursed by general average for his full loss. The assessment is a lien against the goods until the entire amount is paid. The underwriter takes upon himself the responsibility of collecting this contribution.

The term "particular average" is applied to the payment for partial loss. This refers to actual insurance on the particular thing or goods insured and is paid by an insurance company. The clause reads generally to this effect: "no partial loss or particular average shall in any case be paid, unless amounting to 5 per cent." Then if less than 5 per cent of the goods is completely lost, no claim at all can be made against the insurance company; or if the whole cargo is damaged to a slight extent, no claim can be made. The term to indicate that a policy does not cover partial losses, is "free of particular average," often abbreviated to F. P. A. The opposite term, indicating more complete insurance at a higher rate, is "with average" (W. A.) or "against all risks" (A. A. R.)

Note:

1. Anyone taking out a marine policy should be careful to note just what dangers it protects against, especially what provision it makes in case of war. In the Lloyd's policy it is necessary to make a special arrangement, as the ordinary policy expressly releases the insurer from damages arising from the perils of war.

§ 248. Accident Insurance

Accident insurance is insurance against injury or death by accident. The policy may cover injury only, or it may also provide for a payment to a beneficiary in case of the death of

the insured by any accident. The proceeds are payable to the person himself in case of injury. These policies do not cover mere illness, but such things as ivy poisoning, etc., which are regarded as accidents, are included.

Sometimes there is a dispute as to what constitutes an accidental injury. Thus, although infected water might be drunk through accident and serious illness result, one could not collect an indemnity; whereas one could collect on injuries due to inhaling gas, poison taken by mistake, etc.

Many companies will not pay if the insured exposed himself to unnecessary risk such as jumping on a moving street-car; nor will they pay for injuries received while intoxicated, though in this regard there is sometimes great difficulty in deciding if a person's intoxication were such as to make him more liable to injury, and if it were not they would have to pay.

All accident policies provide lump-sum indemnities for such injuries as the loss of a hand, etc.

§ 249. Health Insurance

Some companies insure against sickness and ill health. Usually these policies name a list of diseases in event of which a weekly indemnity is granted. In some cases the health insurance is allowed only in conjunction with accident insurance. Some of the fraternal orders allow their members sick benefits which are the equivalent of health insurance. Practical difficulties in administering the business of insuring against sickness have limited its development. A savings account is probably the best provision against ill health.

§ 250. Group Insurance

Group insurance is a plan to insure a number of the employees of one employer offering an eligible group, without individual medical examination, under one blanket contract

issued to the employer. It is generally applied only to life insurance though the principle of insuring a group could logically be applied to accident and health insurance at least.

The premiums for this insurance are paid monthly by the employer and the insurance is payable to the beneficiary named by the employee. Ordinarily the basis of insurance is one year's salary with a maximum of \$3,000 to any individual. Any employee receiving annual remuneration in excess of that sum would receive only \$3,000 insurance.

If it is desired by the employer, the insurance company will settle the insurance benefits in twelve monthly payments. This would amount to a continuance of the pay check for a full year in the event of death while in service—during which time the beneficiaries would be able to adjust themselves to the changed conditions caused by the death of the breadwinner.

The operation of the plan is simple. New incoming employees are automatically included upon passing a simple health test and the insurance by the employer on outgoing employees ceases upon termination of service.

The cost depends on the age and annual wage of each employee. It would be approximately $1\frac{1}{4}$ per cent to $1\frac{1}{2}$ per cent of the annual pay-roll.

§ 251. Liability Insurance

Liability insurance is to protect the employer from liabilities arising under the Employers' Liability or Workmen's Compensation Acts. (See §§ 279, 280.) In many states it is possible to take out this form of insurance with a state fund. There is also automobile liability insurance, which covers liability for injuries to others resulting from the use of the automobile. Railroad companies may take out insurance (carriers' liability insurance) to protect them against liability to passengers and others, for injuries arising from railroad accidents.

§ 252. Title Insurance

In order to protect purchasers of real estate against the expense of lawsuits arising from possible defects in the title to the property, a business of investigating and insuring the title has grown up. Title insurance companies generally furnish both title searches and insurance. As with most other insurance of this nature, the company generally settles the claim or defends the suit on notice from the insured that he has been served with a notice of suit.

§ 253. Burglary Insurance

This is one form of what is known as casualty insurance, that is, insurance against accidents to property of various kinds other than loss by fire. It is, as the name implies, insurance against loss of property by theft. It applies only when the theft is committed by someone breaking into the house or building where the property is kept, unless the policy states otherwise. It would not cover having one's pocket picked.

§ 254. Plate Glass Insurance

This is insurance on large plate glass windows because of the great expense of replacing them. It also is a form of casualty insurance. Where the windows are injured in a fire, if there is any insurance other than the glass insurance policy on them or on the building, only an amount proportioned to the relation of that policy to the whole amount of insurance on the building can be collected on the plate glass insurance policy.

§ 255. Automobile Insurance

Many companies offer automobile insurance. What is known as a full cover on an automobile includes insurance against the hazards of:

1. Fire or explosion.
2. Transportation, i.e., derailment and collision.
3. Theft.
4. Damage by fire to personal effects carried upon the car.
5. Damage to other property by being in collision with the automobile insured—known as property damage.
6. Damage to the automobile insured by being in collision with some other object.
7. Loss of life or injury to the occupants of the car and legal liability for expenses in connection therewith.
8. Loss of life or injury to others and legal liability for expenses in connection therewith.

The rates are high to compensate for the very considerable risks. What is known as the "moral hazard," i.e., the risk of unfair dealing by owners, is great, and hard to guard against. The enumeration of hazards shows the varied possibilities of loss and damage.

§ 256. Other Forms of Insurance

Boiler Insurance. This is insurance against injuries to property arising from boiler explosions, another form of casualty insurance. A fire insurance policy does not cover such a loss unless the explosion resulted from a fire.

Burial Insurance. This form of insurance is in operation among the very poor. In return for certain weekly or monthly payments, the company guarantees to pay the expenses of a decent burial.

Credit Insurance. Credit insurance is insurance against the dishonesty or the insolvency of debtors.

Fidelity Insurance. Fidelity insurance is insurance against losses arising from fraud or dishonesty on the part of agents or employees. There are three forms of fidelity bonds: first,

the larceny or embezzlement bond; second, the culpable negligence bond; and third, the faithful performance bond. The last is the most comprehensive and the most costly.

Hail Insurance. This is common in the grain states, where the farmers often suffer heavy loss because of the damage hailstorms do their crops.

Live Stock Insurance. Blooded animals are so valuable that their owners find it necessary to protect themselves against loss by carrying insurance against disease or death.

Rent Insurance. This is insurance for the loss of rents owing to the failure of tenants to pay rent, or to a destruction of the property by fire or some other calamity.

Strike Insurance. An employer can even insure himself against strikes on the part of his employees, and the consequent losses.

Tornado Insurance. As its name indicates, this is insurance against damages and loss of property arising from tornadoes.

REVIEW QUESTIONS

1. What three requirements are essential to the contract of marine insurance?
2. Has a stockholder an insurable interest in a steamboat owned but not insured by the corporation?
3. What is "general average"?
4. What is "particular average"?
5. What risks are usually covered by an accident insurance policy?
6. What is group insurance?
7. What is the usual purpose of liability insurance? Who takes out the policy?
8. What is title insurance?
9. What does the owner of an automobile want insurance against?
10. Who takes out fidelity insurance? What is the simplest form? Under this form could the holder of the policy recover if his employee lost the money?

PART VII
EMPLOYMENT

CHAPTER XL

THE CONTRACT OF EMPLOYMENT¹

§ 257. Introduction

The contract of employment is perhaps the one which most concerns the ordinary man in his every-day affairs. All the relations between employers and employees are governed by contract and the laws regulating the subject. In recent years, these laws have undergone almost a revolution; and they are still being rapidly changed to meet the modern ideas of what such relationships should be, and the new sense of the obligations which the employer owes to those under him. It is most important for everyone to know exactly what these changes in the law are, and how they may affect him individually.

The Federal Employers' Liability Act, which defines the rights of all employees engaged in the business of interstate commerce, has been followed in many of the states by acts of like tenor; and various efforts have been made to introduce some of the schemes for workmen's compensation and old-age pensions from abroad. Both of these plans have already been adopted in some of the states; and, it would appear from the trend of modern legislation, they are likely in the near future to be enacted into some form of law in most states of the Union.

Too much importance cannot therefore be given to the contents of this particular chapter. For this reason the subject of the relations of employer and employee has been treated with some fulness of detail.

¹ For forms of contract of employment, see Chapter CIV, Forms 46, 49.

§ 258. Definition

A contract of employment is a contract for the performance of services, by the terms of which the employer is to direct how the work is to be done and what results are to be accomplished. This personal direction by the employer is the essential feature. A contract with a tailor for a suit of clothes is not a contract of employment because it lacks the element of personal supervision.

In the older law books the subject of this part of the book was treated under the head of "Master and Servant." It is far from modern habits of thought and speech to consider a member of a labor union or the auditor of a corporation as a servant. Hence, the obsolete terms are not used in this work.

§ 259. What Constitutes a Contract of Employment

There must be an agreement by competent parties. One party agrees to perform services for the other. There must be a consideration. One party gives his services in return for the payment of wages or salary by the other party. The contract may be expressed or implied. If a man does any work for another on request, the law will usually imply a contract to pay a reasonable compensation. If services are rendered for another with his knowledge and acquiescence, a contract is usually implied.

A contract to do work on shares is an agreement by one party to perform some labor, such as raising a crop, for a share in the crop. For instance, a man may agree to cut grass for a land owner for half the grass. Such contracts are common in farming communities. The fact that the wages are paid otherwise than in money does not alter the relationship.

As has been stated (§ 258), the peculiar and distinguishing element of the contract of employment is that the party for whom the services are to be performed has the right to direct

the other party in what he is to do. A contract to build a house where the builder merely agrees to construct a house according to certain plans to be furnished by an architect and to the satisfaction of the person for whom he is building it, is not a contract of employment. But where a man agrees to do the manual work of building the house under another's orders as to how it shall be done, he is that other man's employee.

The essential element of the relation of employer and employee is the right of the employer to give orders to and direct the employee in the performance of his work.

Most of the work on public buildings, roads, canals, etc., is done by letting the entire contract to a contractor who in turn lets out parts of it to subcontractors. The question of the liability of the main contractor to the employees of his subcontractors rests on this principle. If the employees are taking orders from his foremen, the chief contractor is liable to them as he would be to his own employees (see § 271). If the subcontractors are to do their own directing and give the orders to their own men, being responsible to the main contractor only for the finished results of the work, then he is not liable to their workmen any more than he would be to outsiders.

§ 260. Independent Contractors

Independent contractors are not employees. An independent contractor is a man who engages with another to hand over to him in completed form some particular piece of work, and to receive a certain sum of money for doing it. In building, the excavating, the mason work, the plumbing, and the painting are usually undertaken by such independent contractors.

Where a contractor merely engages to do a piece of work for another and retains the right to direct its doing himself through his own foremen, his employees do not ordinarily stand in the relation of employees to the person with whom he

has contracted. Sometimes, however, the law says they shall have the rights of employees, and then they may claim them. Most of the state enactments as to employers' liability and workmen's compensation give employees of independent contractors the same rights against the principal contractor that his own workmen have.

§ 261. Interpretation of Contract

The contract of employment is to be interpreted in the light of what both parties reasonably understood it to mean. The same rules that apply to contracts in general govern this type of contract. (See § 49.) In case the provisions are indefinite, the question as to when it will be understood to begin and to end is answered in §§ 265, 266.

Any well-recognized customs in the particular trade or business to which the contract under consideration relates, such as a custom of paying a certain percentage as commission to insurance agents, etc., will be considered in seeking to find the meaning of the contract.

§ 262. An Express Contract Cannot Be Proved by Custom

In attempting to prove an express contract of employment, it is not enough to show the usual custom of a mercantile house or other business in making such contracts. The house is entitled to make a separate contract with every employee; the duties and rights of each employee are regulated by that contract without regard to dealings with other employees.

For instance, in an Alabama case, an employee claimed that there was a custom in the firm to engage employees by the year, and that therefore his employment with them was for the year. The court said that he must prove the actual agreement between himself and the firm.²

² *Hartsell v. Masterman*, 132 Ala. 275; 31 So. 616.

Sometimes provisions may be read into a contract from customs which are universally known in the line of business in which the contract of employment was made. For instance, if there was a universal custom to pay employees by the week, the court might find from the testimony that both parties had it in mind at the time of the making of the contract. In order to prove this to be the fact, however, the custom must be so universal that everybody in the business ought to know of it, and either party may prove that they expressly agreed otherwise.

Note:

1. In making a contract, it is not safe to rely on custom. All provisions of the contract should be stated expressly.

§ 263. Wages

Wages are payable by the day, the week, or the month where the contract expressly provides that they shall be, or where it is the custom to pay in that way, so that the parties might be supposed to have intended to make it part of their agreement. If there were no such custom and the contract said nothing about it, the employee would not be entitled to his wages until the end of the entire period for which the contract was to run.

The custom of paying wages at short periods, by the week or month for example, is pretty well established. If the parties desire to arrange otherwise, it should be so stated in the contract.

§ 264. Modification of Contract

The contract of employment, like every other contract, may be altered by the consent of all the parties to it. The question of whether there must be consideration or not, or what con-

stitutes consideration for the new contract, has already been taken up under the subject of contracts in general. (See § 44.)

§ 265. When Contract Begins

Where the contract does not state when it is to begin, it begins at once, or as soon as is reasonable under the circumstances. For instance, if a man is employed to act as bookkeeper for a business which has not yet been started, he will not be expected to begin his work or draw his salary until the business starts.

Note:

1. Both parties should see that the time when the employment is to begin is made part of the contract.

§ 266. Termination of Contract

Where there is no definite time fixed for the contract to end, it will end when either party desires to terminate it. If a definite time is fixed for the payment of wages, such as a day, a week, or a month, the contract will last for at least that period of time, and cannot be terminated before. If the employment is by the week, month, or year, it cannot be terminated by either party except at the termination of such a period. If the employer discharges the employee (except for good cause) before the end of such a period, he will be liable for the employee's wages until the end of the period.

If the employee leaves in the period, he will, strictly, forfeit all claim for compensation. Some courts allow in such cases whatever value the employee can show for his services, less any damage caused by his leaving before his time was up.

Notes:

1. A definite understanding as to the duration of the employment is better for both employer and em-

ployee. It will avoid unpleasant disputes and may save a lawsuit.

2. Both employer and employee should act fairly about terminating the employment. To leave without notice at end of period or to discharge without notice at end of period is in most cases unfair.

§ 267. Termination of Contract by Breach

A contract of employment may end either when it is completed, or when it is broken by either of the parties to it.

What the Employee May Do. On the part of the employee, the contract may be broken either by leaving the employment or by doing something which would justify his employer in discharging him—by acts of disobedience or insubordination, or by acting contrary to his employer's interests.

The disobedience or insubordination must be such as will prevent the employer from being able to rely on the employee to do good work. And the employee is under no obligation to obey an order to do anything not called for by his contract. A department store owner discharged the head of his dress-making department because she refused to obey his orders to perform the work of a seamstress. The court held the discharge a breach of contract.

Either incompetence or habitual drunkenness constitutes a breach of the contract. The employee undertakes to be only reasonably competent, however, and he cannot be discharged for not being an expert, unless there is some express understanding calling for a specified degree of skill.

An illness of the employee which keeps him from work also puts an end to the contract, though it may hardly be regarded as a breach.

What the Employer May Do. The employer may break the contract either by discharging the employee without justification, or by rendering the work in some way unsafe to his

health, his life, or his morals. Or he may break it by requiring the employee to work for less wages than were agreed upon, or to perform different services. He can make none of these requirements without the employee's consent.

A contract of employment is one involving personal relations and cannot be assigned by either of the contracting parties. Therefore, if the employer sells out his business to other parties, his employees cannot be compelled to work for the new owner. If the employer takes a partner and forms a new firm, or if a firm becomes incorporated, the result, so far as the employees are concerned, is similar to assignment of the contract to a third party.

The bankruptcy or insolvency of the employer or the winding up of his affairs by a public officer, as in the case of a bank or an insurance company in danger of insolvency, puts an end to the contract.

The fact that an employer has no work for an employee will not justify a discharge before the end of the contract.

Notes:

1. In selling out a business, or changing the nature of a business, an announcement of the new arrangement should always be made to the employees.
2. Remaining in the employment with knowledge of the change amounts to an acceptance of the new arrangement.

§ 268. Rights and Remedies

In any case, except where the employee has been guilty of actual disloyalty to his employer by engaging in competition with him, or has offered physical violence to his employer, he is entitled to the wages, salary, or commissions which he has already earned, and, if a bonus has been declared, he is entitled to that too. This is true whether the

breach of the contract is due to his own action or to that of his employer. (See also § 273.)

Employee's Rights to Damages. Where the employer is guilty of a breach of the contract, the employee is entitled to damages. He may sue at once and collect what is already due him, or he may wait until the contract period is over and then sue for the total damages he has sustained. It is his duty to try to obtain other employment, and the damages which he may recover are limited to the difference between the wages he would have received and any sums which he has been able to earn since.

Where the wages or salary are to be paid at stated periods, the courts in some states allow the employee to sue at the end of each period for the amount then due him; as for instance, where the wages are payable by the month, at the end of each month. In other states the employee may bring only one action, and if he sues before the end of the contract period he may recover only such damages as he has suffered up to that time, and will have no further remedy.

Where a contract of employment provides for notice on both sides, the employer must give the required notice or pay the employee wages for the period of notice before discharging him; and if he fails to do this the employee is entitled to recover this amount as damages.

Employer's Grounds for Damages. If the employee breaks the contract, the employer is entitled to recover any damages he can prove. He must prove that it is impossible for him to procure anyone to do the work in the employee's place. He cannot recover any damages if the employee leaves his employment because of illness. He will be entitled to retain wages equal to the amount of notice the employee is required to give, only in case there was such a provision in the contract.

Interfering Between an Employer and Employee. If a third person, knowing that a workman is employed by another

and that the term of his employment is not over, induces an employee to leave his employer before the contract of employment has expired, the third person is responsible to the employer in damages should he have acted with full knowledge of the circumstances.

If a third person induces an employee to make a contract with him after the time of his contract with his employer is up, the employer has no cause of action. Or, if the employee has broken the contract himself and then obtains employment from a third person, the employer has no rights against the third person.

If a third person succeeds in getting an employer to discharge an employee, the employee has a right of action against that person. But if the third person merely attempts to influence the employer and is unsuccessful, the employee has no ground for action.

References. The employee has no legal right to a reference. But nowadays the custom of giving references has become in some places so universal that it almost amounts to an understood part of the contract.

Note:

1. Contracts providing for notice should specify a definite time and a definite amount of wages to be forfeited on the part of the employee for failure to give notice.

§ 269. Employment After Expiration of Contract

Where the contract sets a definite time for its termination, and the employee continues in the employment after that time without any new understanding, the general rule is that, if the work which he is doing is the same, he is supposed to have been employed on the same terms.

The new contract in such case will be for the same time

as the old. For instance, if a workman hired for a year remains in his employment into the second year without any new agreement, it will be presumed that he was working under an agreement for another year; and it will be a breach of the contract, for which the employer will be liable in damages, if he discharges the workman before the end of this time. The employer, however, may, if he can, show facts to prove that there was no such understanding.

Note:

1. In this case again, it is safer to have a definite understanding about any renewal of the contract.

REVIEW QUESTIONS

1. What is the distinction between an employee and an agent?
2. Is a salesman working on commission an employee?
3. What is an independent contractor?
4. When an employee is working by the week or month and leaves without cause during the period, what are his legal rights in your state?
5. What causes would justify the discharge of an employee? In such cases would the employee be entitled to compensation up to the time of discharge?
6. What causes would justify an employee in leaving before the expiration of his period of employment?
7. In what ways in your state may an employee seek redress for an employer's breach of contract for a fixed salary payable at regular intervals?

CHAPTER XLI

RELATIONS OF PARTIES

§ 270. Duties of Employee to Employer

The employee by entering into the contract of employment represents himself to be reasonably competent for his work. If the work is manual labor, he is not required to have any experience and must be given a reasonable time to learn its duties. Where the work requires skilled labor, such as in handling machinery, etc., the employee is required to be reasonably and ordinarily competent. If any high degree of skill is required, it must be stipulated in the contract.

A case is on record where a baseball club engaged a pitcher without any definite requirements expressed in the contract; and when they tried to discharge him because he did not come up to what they expected of him, the court made them pay damages, because it could not be proved that he could not pitch as well as the average professional player.¹

There may be a provision in the contract that the employee must be satisfactory to the employer. In most states even then the employer will have to show good reasons for his dissatisfaction before he may discharge his employee.

The courts will not compel an employee to work if he refuses. If the employer can prove that he has suffered by the breach of the contract, the employee is liable to the employer in damages, but there is no way of forcing an unwilling employee to work.

The employee must perform the services stipulated in the

¹ *Baltimore Baseball Club v. Pickett*, 78 Md. 377; 28 Atl. 279; 44 Am. St. Rep. 304; 22 L. R. A. 690.

contract. It is not his fault, however, if their value to the employer is destroyed by the act of some third person, and the employer is none the less bound to pay him the wages agreed upon for them. For instance, in a certain Alabama case one Parham employed a man named Tucker to go into Mississippi and get back some slaves for him. Tucker got them back and they were immediately attached by a creditor. Tucker had nevertheless fulfilled his contract.²

Loyalty and Obedience. Other duties which the employee owes his employer are those of loyalty and obedience. He must not do anything which may injure his employer's business, and has no right to engage in any employment which is in competition with it. Otherwise, the employee has a right to use his spare time as he likes, unless he has agreed by the contract to devote his entire time and attention to the business.

Sometimes, even in such a case, it has been held that the employee has a right to do something else which does not injure his employer where the employer fails to furnish him with work. In the California case of *Stone v. Bancroft*,³ Stone, a publisher who had been employed by Bancroft to devote his entire time to publishing the historian's works, did some work on a medical book while he was waiting for Bancroft to furnish him the manuscript. The court held that Bancroft could not complain, since he had given no work to the publisher. Bancroft was, of course, liable to pay him at the contract rate for the entire period of the engagement.

Part of the employee's duty of fidelity to his employer consists in keeping to himself any business matters of a confidential nature. If an employee discloses any secret processes—what are known as "trade secrets"—he is liable to his employer for damages.

Law clerks and lawyers' stenographers are privileged from

² *Wolfe v. Parham*, 18 Ala. 441.

³ 139 Cal. 78 Pac. 1017; 72 Pac. 717.

testifying on the witness stand to any confidential communications from clients. This privilege does not extend to ordinary stenographers, bookkeepers, or clerks on the witness stand.

Liability of Employer in Using Force. The duty of obedience cannot be enforced by the use of violence on the part of the employer. Formerly a master was allowed to chastise his apprentice on the ground that he stood *in loco parentis* (in the place of a parent) to him. But there is no justification for an employer laying his hands on his employee nowadays, and he would be liable to an action for assault and battery if he did so.

Inventions. The patent rights to inventions which the employee makes in the course of his work belong to him and not to his employer, but it is probable that he would have to give the employer a right to make use of the inventions. It is common nowadays for employers to make some provision in the contract of employment for taking over inventions made by their employees.

Notes:

1. If the employer wishes anything more than ordinary skill from his employee, he must include the requirement in the contract.
2. If the employer wishes to make any arrangement about inventions, he should come to an agreement with his employee and have that included in the contract.

§ 271. Duties of Employer to Employee

The employer owes it to his employees to provide a safe, healthful, and suitable place to work in, and proper tools to work with. To do this, he must arrange for suitable inspection to see that things are in the proper condition and remain so. And it is his duty to hire competent fellow-employees.

An employee is not required to expose himself to the danger of working with drunken, reckless, or incompetent associates.

Responsibility of Employer. These duties of the employer cannot be shirked. He is always responsible for failure to perform them, no matter whom he appoints to attend to them. He must keep buildings, etc., in proper repair, examine machinery to see that there are no dangerous defects in it, and inspect everything that comes to him from any other person to see that it is in safe condition before giving it to his employees to work with.

Co-operation of Employees with Employers. The law is reasonable. The employer is not responsible for an injury arising from an unknown defect, if he has used reasonable and proper inspection. He cannot be required to be continually inspecting; therefore it is the duty of employees to inform the employer of any defects which they notice. If they do not, and suffer injuries, they must usually take the consequences; but at the same time the employer is in a better position to be aware of defects than the employee, and where the defect is a hidden one, it is the employer's and not the employee's business to discover it.

It might be well to state that there are many regulations (hours, sanitation, etc.) which the statutes of each state require, and that often it is required to post a copy of the law on the walls of store or factory. (See also §§ 279, 280, on employers' liability and workmen's compensation acts.)

Limits of Liability. The employer will not be liable for the consequences of defects which nobody could have foreseen and prevented, such as the flying off of slivers of steel from crystallization, a defect which cannot be discovered without a chemical test and the breaking up of the steel in order to perform it. And he is not obliged to employ experts specially to make chemical and other scientific tests. He is required

to make only the ordinary tests employed by those engaged in that occupation.

If an employee is competent when hired and afterwards becomes reckless, drunken, or incompetent, and his acts take place without the knowledge of the foremen or superintendents, though these exercise reasonable supervision, the employer cannot be made liable for the consequences of such acts.

Provision for Work. The employer must provide enough tools and employees to perform the work with safety to all. And he must make proper rules for the conduct of the work and see that they are carried out. Where the law requires safety appliances, seats for women, etc., the employer must comply with it; but in the absence of any statute on the subject he is not required to use the latest and best appliances if those which he has are such as are in ordinary use and are reasonably safe.

Instruction of Employees. It is his duty to instruct young and inexperienced employees in the proper way to make use of tools and machinery, and to warn them of any dangers. He is not responsible if his employees disobey his orders and are injured in consequence; but if their disobedience has been going on for some time, so that it ought to have been known to the foremen and others in charge if they had been reasonably diligent in their duties, or if it has been going on with their knowledge and consent, the employer will be considered to have consented to it and will be responsible for resulting injuries as though the rules had never been made.

If he allows young and inexperienced employees to work in places which tempt them to take risks, it has been held that he will be responsible for any injuries they may suffer in consequence. A case illustrating this point was that of a young boy set to work turning a wheel near the log carriage in a saw mill. The court said that it was tempting him to

follow his natural instincts to ride up and down on the log carriage, and that the employer was responsible for injuries for putting him in such a place.⁴

Employees Must Take Reasonable Care. After the employer has seen to the furnishing of sufficient and proper tools and a safe place to work, he is not responsible if the workmen themselves misuse them. When unfinished appliances, such as molds furnished in two or more parts to be put together, or lumber furnished for making a scaffold, are given to the workmen to be put together, if the men do the work improperly the injuries are not the employer's fault. But a permanent scaffold, such as those which are used to hold up steel framework until it is entirely finished, is part of the place to work. The employer would be responsible for its safety to any workmen other than those who erected the scaffold.

Where the workmen furnish tools and appliances, the employer is not responsible for the condition of such tools, nor for accidents which may result from using them.

Necessity for Inspection. Where the work is construction work, so that the workmen are constantly altering it themselves, the employer is liable only for proper and reasonable inspection from time to time, and not for accidents that occur from some alteration the men have made themselves. But when men are working in a position of danger where they cannot be at the same time on the lookout for the danger and engaged in work, someone must be stationed to warn them. And, in the case of railway work, where there are low bridges which are dangerous to brakemen who must ride on top of freight cars in order to look after the brakes, some system of "tell-tales" or signals to warn them to stoop and avoid danger is necessary.

Further Liabilities of Employers. Employees are entitled

⁴ Marbury Lumber Co. v. Westbrook, 121 Ala. 179; 25 So. 793; 77 Am. St. Rep. 17.

to all of this protection not merely while they are at work, but also while they are coming to or going from their work over the employer's premises. Where a railroad company runs its trains over tracks belonging to another company, and an employee is injured in an accident due to defects in the track, the company is nevertheless liable to the employee. It is as much its business to inspect and see that the tracks over which it requires its employees to pass are in good condition, as it is for it to inspect cars which it receives from another company to see that they are in good condition before allowing the employees to handle them.

If an employee of the company which owned the tracks were injured by any carelessness in running a train of the renting company, however, the company that owned the train and not his own company would be liable to him for his injuries. His own company could have no control over the other company's trains, while the renting company would have control over the tracks it had rented.

Special Contracts. It is not safe for an employer to rely on special contracts relieving him from liability. They are generally contrary to some special statute, such as the Workmen's Compensation Act, for instance, or else will be held contrary to public policy.

Notes:

1. The careful employer makes use of all the safeguards possible for his employees, not merely as a matter of humanity, but as the cheapest policy in the end.
2. The theory of the law in the matter of safeguards is excellent. The practice in many cases is bad. The workman is not usually able to enforce the law against his employer and loses his job if he tries.

§ 272. Presumption with Regard to Joint Owners

When a party is hired to work in an enterprise in which two or more parties are jointly interested, the presumption is that he is the employee of both, and may hold either or both liable for the duties owed to him by an employer.

In one case, an employee was hired by Rumsey, one of the joint owners, to work on a steamboat, and received all his instructions from him. McMahon, the other joint owner, never came on the boat nor had any relations with the employee. But the court held him liable for damages for injuries to the employee.⁵

§ 273. Wages

Wages are the compensation which the employee receives for his services. He may be paid in the form of a salary, or a fixed wage, or "by the piece"; that is, the employee may be paid a certain fixed amount per dozen, etc., for the work he turns out. He may be paid in the form of commissions, i.e., a per cent of the price of goods sold, or of the amount of an insurance policy, etc. The amount of wages is determined by the agreement.

Where the wages, or part of the wages, consist of net profits, the amount of the employee's salary must not be deducted from the gross profits in computing them. Nor may interest on temporary loans be deducted. The employer cannot take out for himself interest on his investment, before computing the net profits.⁶

Wages must be distinguished from a bonus. A bonus is really a gift made by the employer to the employee. He may give it in the form of a reward for good work or may divide a certain percentage of the profits among the employees at Christmas; but in either case it is merely a gift and not

⁵ McMahon v. Davidson, 12 Minn. 357.

⁶ Morrow v. Murphy, 120 Mich. 204; 79 N. W. 193; 80 N. W. 255.

anything which the employee has earned under his contract of employment. If the bonus was specified in the contract of employment, so that when earned the employee could bring suit for it, it would be a misnomer to call it a bonus. It would be earned compensation.

The employee is entitled to the wages which he has already earned even though his employer discharges him for good cause, unless he was guilty of bad faith and attempted to injure his employer's business or use physical violence against his employer. A superintendent who had attempted to sell blooded cattle belonging to his employer for less than they were worth was refused the right to recover unpaid wages.⁷

Some states provide by law that wages must be paid in cash and make it a criminal offense to attempt to pay in orders on the company's store or merchandise. But even under such laws, the custom of issuing time checks which are redeemable in money, where the pay-days are put at reasonable intervals and not made purposely inconvenient to force the laborers to accept time checks, is permissible.

Distinction Between Wages and Salaries. These laws are generally made for the benefit of laborers and do not apply to clerical workers who draw salaries as distinguished from wages. In the same way, the wage-earners, but not the salary-earners, are given in most states the right to collect their wages through enforcing a lien on the employer's property.

The distinction is made in regard to manual labor as opposed to any other sort. Typesetters and printers come under the head of manual labor; bookkeepers and proofreaders do not.

Overtime. The law regulating the hours of labor gives the employer no right to overtime on the part of the workman unless it expressly says so. Generally, it is absolutely for-

⁷ Von Heyne v. Tomkins, 89 Minn. 77; 93 N. W. 901; 5 L. R. A. N. S. 524.

bidden to allow employees on public works to work more than the time specified, i.e., eight hours a day in New York, and private employees may refuse to work for a longer time. If employees work overtime without an express agreement for additional wages, they are not entitled to them, and if the employer permits them to work less than the specified number of hours in any day, he is not entitled to require them to make it up.

Where a contract of employment expires and the employee continues to work without any new contract, if he is performing the same kind of services as before, he will be entitled to the same wages.

Notes:

1. The agreement for wages should not be left indefinite as to hours, overtime, etc.
2. The disadvantage of the single laborer in any dispute with his employer has caused the development of the labor union and much labor legislation.
3. A minor has usually no right to his own wages, consequently an employer should not pay them to him without his father's consent, or he may find himself under an obligation to the father. The wages should be paid to the father, or his written consent to their payment to the minor obtained. In New York the statute requires the father to give notice if he claims wages.

§ 274. Fines, Deductions, etc.

Fines can be imposed only for offenses in the course of the work. In the case of *Cross v. Detroit Baseball Club*,⁸ Cross was fined \$75 for using bad language in an argument

⁸ 84 Mo. App. 526.

with the manager at a distance from the grounds. The court refused to allow the club to collect the fine.

Deductions of wages for leaving without giving notice must be reasonable in amount. The courts have held that indefinite deductions of all wages then due are unjust, because they give the employer a chance to take advantage of his employees by withholding their wages for long periods of time.

Fines for offenses must be agreed to by the employee. They should be mentioned in the agreement of employment, or posted in the rules in a conspicuous place; and the employee's attention must be called to them so emphatically that he cannot say that he was ignorant of what they were. Merely posting up rules without calling them to the employee's attention is insufficient.

Notes:

1. In making an agreement that wages may be deducted if the employee leaves without giving notice, the exact amount to be deducted should always be stated. It should be a reasonable amount, as otherwise the courts may hold the agreement unfair and refuse to enforce it.
2. Where fines are to be imposed, it is best to have a printed copy of the rules imposing them made a part of the contract of employment, or given to the employees with an announcement that these are rules for fines which they should read carefully. If any of the employees are illiterate, the rules should be explained.

REVIEW QUESTIONS

1. What degree of skill must an employee have?
2. Has an employer any rights in regard to the spare time of the employee?

3. Is a bookkeeper privileged from testifying as to confidential information?
4. What is the law as to inventions made by an employee, where no provision has been made in the contract?
5. What are the obligations of the employer? If he fails, what is the consequence?
6. What circumstances would justify discharge and forfeiture of wages due?
7. May employees be fined for coming late?

CHAPTER XLII

EMPLOYER'S RESPONSIBILITY

§ 275. Introductory

Under the common law, the employer's responsibility for injuries to his employees was reduced to a minimum.

1. "The rule as to the assumption of risk" held that if the defects of equipment were such that the employee could see them, he assumed all the risk by taking employment. As a man who needed work was not in a position to reject it because equipment was unsafe, the doctrine prevented a multitude of injured workmen from receiving damages. (See § 276.)

2. "The rule as to contributory negligence" relieved the employer from any responsibility if the workman had himself been in any way careless. Many a crippled worker was defeated in the courts by reason of this rule. (See § 277.)

3. "The rule as to fellow-servants" was a particularly unjust regulation. If the carelessness or negligence of a fellow workman caused the injury, the hurt man had no compensation. He did not hire the men with whom he worked, but the law held that if he chose to work with them, and they were careless or incompetent, the employer who had hired them was relieved of all responsibility. (See § 278.)

The injustice of these rules and the disadvantage to the injured workman when he tried to enforce his rights in the courts, have led to the passage of many laws designed to remedy the conditions. There are two classes of these laws:

1. The employers' liability laws, which aim to define the

employers' liability and to modify or remove the objectionable common law rules.

2. The workmen's compensation laws, which try to systematize the responsibility for injury and to provide something in the nature of insurance for the wounded and bereaved in the fields of industry.

These laws proceed on the theory that if a workman is injured from any cause, there is a loss that someone must stand. In such a case, it seems that the particular industry should care for those who were injured in it, and that the care for the injured should be made part of the expenses of the business, so that careless and conscienceless employers would not be allowed to shirk responsibility.

§ 276. Doctrine of Assumption of Risk

This rule of law still holds in many states where there is no workmen's compensation act, or where the workmen's compensation act does not cover all kinds of employment.

The doctrine holds that if there are dangers in the business which are sufficiently obvious for the employee to notice and recognize, he assumes the risk of accidents which may arise from them, and the employer is not liable for his injuries. The same would be true if the workman afterwards discovered dangers and remained in the employment without the employer's promising to remedy them.

If the employer assures an employee that his work involves no danger, the latter cannot be held to have assumed the risk. For instance, in *Wurtemberger v. Metropolitan St. R. Co.*, a foreman laughed at a workman when he told him that a jack was unsafe, and said to the rest, "Here is a greenhorn, and he thinks that jack is unsafe."¹ *Wurtemberger* was held to have a right to damages for the injury subsequently received. (See also §§ 279, 280.)

¹ 68 Kansas 642.

§ 277. Doctrine of Contributory Negligence

This rule holds that if the carelessness of the injured employee in any way contributed to the accident which caused the injury, the employer will not be held responsible.

It makes no difference that the carelessness of the employee was unintentional or the result of a mistake. For instance, in one case, an employee thought he was walking on a side track instead of the main track and continued walking along it until a train struck him.² He was not permitted to recover damages.

In another case, a brakeman named Quirouet left the brakes set on a freight car. Then, instead of waiting for the caboose which had steps on it, he tried to climb up and turn off the brakes so as to prevent the wheels from bursting and wrecking the train. He was injured while attempting to climb up in this way, and was not permitted to recover damages.³

Some states now have a doctrine of comparative negligence. Sometimes the accident was primarily due to the carelessness of the employer or to his neglect to perform the duties which he owed to the employee, but the employee's own carelessness had something to do with it. In this case the jury must determine what damages are due the employee for the injury, and then decide what relation his carelessness bore to the employer's carelessness or neglect of duty, and award him a proportionate amount of the damages. (See also §§ 279, 280.)

§ 278. The Fellow-Servant Rule

The fellow-servant rule means that the employee cannot hold his employer for damages if the injury was due to the act of a fellow-servant or a fellow employee. This rule, with

² Vreeland v. Chicago, etc., R. Co., 92 Iowa 279; 60 N. W. 542.

³ Quirouet v. Ala. Great Southern R. Co., 111 Ga. 315; 36 S. E. 599.

the doctrines of assumption of risk and contributory negligence, is rapidly being done away with.

In some states the harshness of the old law has been mitigated by the so-called superior servant rule. That is, if the fellow-employee was a superintendent or someone in a position of authority, he is not regarded as a fellow-servant and the employer is responsible for his carelessness. In some states, only an employee who has the power to hire and discharge is regarded as being a superior servant; while in others, any position of authority which gives him the power to control the actions of the men is sufficient to insure his status under the superior servant rule. (See also §§ 279, 280.)

§ 279. Employers' Liability Acts

Employers' liability acts have been passed to define and increase the liability of the employer for injuries. Most of them do away with, or at least modify, some of the old rules excusing the employer from liability. The doctrine of the assumption of risk has generally been greatly modified, and the duties of the employer to guard against accident have been increased. In New York, for instance, the employee assumes only such risks as may still remain after the employer has taken care to discover and remedy all defects, and has complied with all laws requiring safety devices.

It is under these acts that the doctrine of comparative negligence has been introduced.

Differences in Liability Acts. In order to know just what the effect on the old rules is, it is necessary to consult the particular liability act of each state, as the acts differ somewhat. Some of the acts apply only to special classes of workmen, such as miners; while others exclude certain classes, such as farm laborers. For information in regard to this also, it will be necessary to consult the particular act in question.

As a usual rule, these acts provide that the employees of a subcontractor are to be considered as the employees of the contractor also, for the purpose of claiming compensation for injuries under the act. (See §§ 259, 260.)

Notice of Accident—Time Limits. In order to obtain the benefits of bringing suit under the act, the employee must give his employer a notice—usually it must be written—of the time, place, and cause of the accident. The employee may either serve the notice personally or send it by mail to the employer's last known address. This notice must be given within a certain limited time after the happening of the accident. The time varies in the different acts, and there is generally some provision allowing the employee a certain extension of time in case of mental or physical incapacity, so that he may send the notice after the incapacity has been removed. The action must be brought within a certain time from the happening of the accident; generally varying from one to two years.

Death of Employee—Cause of Action. In case of the employee's death from his injuries, these laws give a cause of action to his personal representative, i.e., executor or administrator, or to his surviving relatives, to recover damages for the injury these relatives have suffered by his death. In such a case, the executor or administrator is allowed a certain period of time after his appointment in which to give to the employer the notice mentioned above.

This right of action in case of death is distinct from the right of the employee to sue for injuries. The employee may recover damages for his injuries; his representatives may recover only damages caused to *them* by his death. But, as a sort of additional penalty to the employer, the state of Massachusetts allows the surviving relatives to recover damages for conscious suffering enduring by the employee before his death.

In order to take advantage of these acts, the rules as to the notice and the time within which the action may be brought must be strictly observed. If, through failure to comply with them, the new right of action under the act is lost, the employee still has his old action at common law for the injury which he has suffered, provided that it has not become outlawed also by lapse of time; the employee would, of course, stand a much better chance of recovering if he sued under the act. His relatives in case of his death have only the action given them by the statute. If they fail to take advantage of this action, their remedy is gone.

Some of these acts have been superseded by the workmen's compensation act discussed in the next section. In other states, as in New York, the workmen's compensation act applies only to certain employments, leaving the rest to come under the employers' liability act.

The Federal Employers' Liability Act. This act applies to all the railroads engaged in the business of interstate commerce throughout the country. It also applies to all railroads in the possession of the United States, such as those of the Philippines and Porto Rico, and in the District of Columbia. Where the railroads are engaged in both interstate and intrastate commerce (that is, both commerce which crosses the state lines and that which is carried on wholly within the state), in order to take advantage of the law's provisions the employee must, of course, himself have been assisting in the business of interstate commerce at the time the accident occurred.

However, a railroad company in contributing to an employees' accident fund may lawfully make the condition that if the employee accepts any benefit under the fund, he thereby gives up his right to bring suit. He does not make his choice as to whether he will accept the benefit or will bring suit, until after the injury has taken place.

Notes:

1. In attempting to claim damages under any employers' liability act, if it is proposed to bring an action, consult a reputable lawyer, who will be able to attend to all the necessary formalities and to secure for the injured employee his proper rights whether by suit or by compromise of the claim.
2. If you intend to sue, do not accept any benefits from insurance funds connected with the company without first consulting a lawyer.

§ 280. Workmen's Compensation Acts

With all the protections and safeguards that can be devised by science and required by law to protect the employee, there will always be certain occupations which in their very nature are dangerous to life and limb. Such are mining, building, railroading, working in atmospheres clouded by fine dust or gas fumes, etc. In the past, the loss of life and health in these industries reached alarming proportions. It has been reduced somewhat by the modern tendency to require safeguards, but the fact remains that these industries are all the time "scraping" humanity.

Since employees injured in these occupations seldom earn wages large enough to permit them to provide for the future, the burden of taking care of them and of their dependents has fallen in a large measure on the community. It seemed more just to make the industries which caused the injuries pay the expenses than to let the burden fall on the employee or on the community as a whole.

In consequence, both here and abroad there has grown up in recent years a system known as workmen's compensation.

It is part of good bookkeeping to carry a depreciation account to cover the wear and tear on mechanical machinery in a manufacturing business as a part of the cost of the product. The time has come when provision must be made for the wear and tear on the human machinery engaged in the industry which is quite as much a part of the cost of production as is the wear and tear on the plant. We are accordingly getting Workmen's Compensation Laws to protect the laborer to a slight extent against accident and to provide for his family in case of death in the course of his employment.⁴

The essential feature of this system is that there is established a scale of compensation for different kinds of injuries, by which payments are usually made at regular intervals extending over some period of time. The payment must be made, as a general rule, regardless of who was to blame for the accident, except where the employee wilfully and intentionally brought the injury on himself, or where it came about as the direct result of his intoxication.

§ 281. Modern Statutory Law

In New York State, the compensation law⁵ enumerates some forty groups of hazardous employments. The scope of the law is widened by including, as the last group:

All other employments not hereinbefore enumerated carried on by any person, firm or corporation in which there are engaged or employed four or more workmen or operatives regularly, in the same business or in or about the same establishment, either upon the premises or at the plant or away from the plant of the employer, under any contract of hire, express or implied, oral or written, except farm laborers and domestic servants.

In addition, it is provided that any employer not coming under the provisions of the law, or having some employees who do not, may choose to accept the law of his own accord.

⁴ Samuel Untermeyer.

⁵ As in effect July 1, 1919.

In other states, it applies to all occupations, or to all occupations with a few exceptions, such as farming or domestic service. In New Jersey the act applies to all classes of employees, *including* farm hands and domestic servants.

The injury must be one arising out of the employment. For instance, in a New Jersey case a workman named Hully slipped on a concrete floor while dodging away from a fellow-workman who was trying to knock his hat off. This was held not to come under the compensation act.

If the employee is injured on his way to or from work, while on his employer's premises, it is considered injury in the course of his employment and entitles him to compensation.

An injury received while he was disobeying orders would not entitle him to compensation. A man named Reimers who had been forbidden by his employer to make use of an automobile, took it out and was injured in consequence. He was not allowed compensation.⁶

An injury caused by a third person to an employee in the regular course of his work entitles him to compensation from his employer as does any other injury in the course of the employment. For instance, in one case a superintendent was shot by a man who had been annoying a woman employee and whom he had ordered off the premises. The superintendent was entitled to compensation.

§ 282. Schedules of Compensation

Each act contains its own schedule of compensation. Most of them follow the same general scheme. The following is the New York schedule of compensation for injuries:

1. Permanent total disability shall entitle the employee to receive two-thirds of his weekly wage, while he lives.
2. Temporary total disability shall entitle the employee

⁶ Reimers v. Proctor Pub. Co., 85 N. J. L. 447.

to receive two-thirds of his weekly wage to an amount not exceeding \$3,500.

3. Permanent partial disability entitles the employee to receive two-thirds of his weekly wage for varying periods ranging from 60 weeks for loss of thumb to 312 weeks for loss of an arm.

In the case of death, compensation to the employee's dependent relatives is provided according to a fixed schedule. In New Jersey the scale runs as follows: For one dependent 35 per cent of wages earned until remarriage of widow or attainment of age of 18 by child. From this it increases by a sliding scale to a payment of 60 per cent of wages earned in case of six dependents. In any case, payments are not to exceed 300 weeks.

In New York the death compensation ranges from 30 to 66½ per cent of wages as a maximum, and weekly payments are to continue until dependency ceases. In other states there are other variations, but enough has been cited to give a general idea of the liberality of these laws.

§ 283. Who Are Entitled to Compensation

It is generally held that in order to be an employee entitled to compensation the man must be regularly employed, and must be subject to the employer's orders as to how the work shall be done. Independent contractors and subcontractors are not employees. But the employees of subcontractors may recover compensation from the main contractor as though they were his employees. (See §§ 259, 260.)

Where there is a dispute between the employer and the employee over the amount of compensation which is due under the act, most of these acts provide for arbitration. Some of the acts provide that at any time an employer may agree with his employees to appoint a standing arbitration committee which shall decide all disputes that may arise in the future.

The law usually requires the employer to report all accidents to the Compensation Commission within a certain time after their occurrence, on penalty of paying a severe fine if he fails to comply.

Where one injury results from another, the first one being the result of the accident, the compensation must cover both. For instance, an employee was paralyzed in an accident and died of blood-poisoning from a bed-sore which came because he had to lie in one position all the time. His relatives were allowed compensation for his death.⁷

If the employee was not strong physically, a fact which rendered him more prone to accident, it would make no difference in his right to compensation for the injury. In a Massachusetts case, a delicate woman named Honora Madden, who was employed as a carpet sewer, brought on angina pectoris by pulling heavy carpets across the table in the course of her work. It was admitted that if she had been stronger the exertion would not have hurt her. She was allowed full compensation.⁸

§ 284. Employer's Defenses Taken Away by the New Act

This scheme of compensation is not made compulsory, but the same effect is accomplished by taking away all of the defenses, i.e., assumption of risk (§ 276), contributory negligence (§ 277), and the fellow-servant rule (§ 278), which the employer had at common law. The result is that the employer's chances of escaping the payment of heavy damages in a suit at law are so slight that most employers prefer to take advantage of the act.

The employer comes into the scheme by taking out insurance, or giving security for the payment of claims required by the act. After he has done this, it is assumed that each

⁷ Burn's Case, 218 Mass. 8.
⁸ Madden's Case, 22 Mass. 487

of his employees has also consented to come under the scheme unless the employee at the time he enters the employment files notice to the contrary with the employer. In New Jersey, every agreement of employment is deemed to have been made under the act, unless at the time of making the contract one of the parties notifies the other in writing that he refuses to accept the agreement under the terms of the act.

Employees Cannot Give Up Right. The acts also provide that the employee cannot make an agreement giving up his right to compensation. If he makes one, it will have no binding effect on him, and he may claim the compensation just the same.

Notes:

1. Every employer of labor should inform himself as to his responsibility under the laws of his state.
2. It is cheaper for the employer to enter the compensation scheme than to take the alternative. Where the acts allow it, most employers will find it cheaper to insure with the State Fund or some good insurance company than to risk paying for injuries.
3. An employer should select reputable physicians and notify his employees to go to them, when the act makes him responsible for medical attendance. This will protect both himself and his employees against overcharge or malpractice.

§ 285. Third Persons

Except under the workmen's compensation acts, the employer is not responsible to his employees for the acts of third persons over whom he had no control. If a train robber were to hold up a train and shoot the engineer, the railroad company would not be responsible for the affair to either employees who were hurt or passengers who were robbed.

The employer is, on the other hand, responsible to third persons for any injuries caused to them by his employees in performing their duties. If the injury is the result of some act of the employee which has no connection with his duties as an employee, the employer is not liable. If, for example, the employee should injure the third person in a fight over some personal quarrel, or in playing a practical joke, the employer could not be held to have had any connection with the matter. (See § 136.)

Where an employer is liable to a third person for injuries caused by his employees, if the third person was careless in any way that contributed to the accident, he would be prevented from recovering damages from the employer. The contributory negligence rule (§ 277) still stands in all cases so far as third persons are concerned.

REVIEW QUESTIONS

1. What three common law rules relieved the employee of responsibility for accidents? Explain the working of each.
2. What two classes of modern law modify the injustice of the common law rules as to accidents to workers? What is the theory of these modern laws?
3. What are the special features of the workmen's compensation act of your own state?
4. What are the special features of the employers' liability act of your own state?
5. Who are employees? Who are entitled to damages or compensation for an injury? What must the injured workman prove to secure damages for a personal injury in your state?
6. What should a workman, injured while employed by one not insured under workmen's compensation act, do in your state?
7. When is an employer responsible to third persons for injuries caused by his employees?
8. If a woman offers her neighbor's cook higher wages so that she leaves, is she liable to her neighbor in damages?

PART VIII

PARTNERSHIP

CHAPTER XLIII

INTRODUCTORY

§ 286. Definition

Partnership is the result of a contract between two or more competent parties to combine their money, property, skill, or labor for the transaction of some lawful business for profit.

Essential Elements. Mere representation that parties are partners, or their passive acquiescence in such representations by others, will, *as to third parties*, be sufficient to establish partnership liabilities. To form a partnership as between the parties themselves is less simple and requires the following essential elements:

1. An agreement
2. Parties competent to contract
3. Partnership capital or property
4. A community of control
5. A lawful business
6. Profit-sharing as a motive

Unless expressly stipulated otherwise, as in the case of dormant and special partners, each member of a partnership has an equal right to assist in the management of the partnership business and property, and has equal power to contract regarding it. This right may be restricted by agreement among the partners.

The business or undertaking must be lawful, and the association must have been formed for the purpose of sharing profits. An association that does not share profits is not a partnership.

Distinctive Features. The partnership relation is characterized by certain distinctive features.

1. Each partner is an agent for the others in the transaction of any business within the scope of the partnership purposes.
2. Each partner shares, either equally or in an agreed proportion, in the net profits of the business and usually in the losses also.
3. In case of insolvency each partner is personally liable for all of the firm's obligations.
4. The property, the business, firm name, good-will, and any trade-marks or other intangible possessions are firm property and form part of the common fund.
5. A partner is entitled to good faith and fair dealing from his associates, and on dissolution of the partnership may have an accounting to ascertain his interests in the business.
6. The partnership relation is a purely personal one and the partnership is terminated if any one of the partners dies, retires, or sells his interest in the firm.
7. Unlike a corporation, the partnership has no entity distinct from its membership. It cannot sue nor be sued in the firm name. It cannot contract with nor bring suit against its members, nor can they bring suit against it.

§ 287. Partnerships Distinguished from Non-Partnership Organizations

Co-ownership in either land or personal property does not involve any partnership between the owners.

Associations not formed for profit are not partnerships. The many unincorporated clubs, churches, societies, associations, and fraternal organizations are not partnerships and do not

involve mutual agency nor partnership liability. Co-operative societies which buy goods and *distribute* them among their members are not partnerships unless formed for the purpose of making a profit. In some states business organizations designated as partnership associations are authorized by law. These are neither partnerships nor corporations, though they partake of the characteristics of both. (See § 293.)

Contracts That Are Not Partnership Contracts. Contracts are frequently made for a share of profits as compensation for services, for the use of property, or for the loan of money. In the first two cases, if the agreement was made in good faith and not to evade the law, the contract will not be held to create a partnership. Where money is loaned, and an agreement is made in good faith to give the lender a share in the profits as compensation for its use, and he does not participate in the management of the business or hold himself out as a partner, the contract will not in most states be considered one of partnership. It is safer to have the agreement expressed in writing, as under the old rule of law the parties became partners under such an arrangement, and in some states it is necessary to have a written agreement to prevent this effect.

A contract of the above nature should provide for the return of the money loaned without reference to profits. Where such a contract concerns the use of property, the title to the property should be carefully reserved to the owner. In all cases where profits are taken without partnership intent, it is prudent to specify in the contract that the party shall receive as compensation "an amount equal to" the proposed share of profits.

If in any of the cases of profit-sharing discussed, the agreement is made for a share of the "gross returns," this wording shows conclusively that the arrangement is not a partnership. The usual arrangement for renting land for a share of the crops raised is an example of this form of contract, and

neither as between the parties themselves nor as to third persons would the relation be one of partnership.

Liability to Third Parties. In dealing with this question it is to be emphasized that *as to third parties* it is the apparent intention of the parties rather than their expressed or declared intention which controls. If the acts of the persons under consideration are such as to mislead third persons into believing them partners, they will have to assume the liabilities of partners to such third parties. As between the parties to the agreement, however, the true rule is that "the agreement and intention of the parties themselves should govern in all cases." (See §§ 295, 299.)

Notes:

1. A contract for a share in the profits not intended to create a partnership should always be in writing and provide either for "an amount equal to" the agreed share of the profits, or for a share of the "gross returns," and not for "a share in the profits."
2. Such a contract should also provide that the person with whom the profits are to be shared is not to be a partner, and is to have no control of the business nor liability for its debt.

REVIEW QUESTIONS

1. What is a partnership? What are the essential elements?
2. What may cause a person to be held liable as a partner by third parties?
3. How is a partner an agent?
4. Must each partner have an interest in both profits and losses?
5. What is meant by partnership liability?
6. Distinguish between the legal character of a partnership and a corporation.

7. Distinguish between partners in general business and partners in common of a tract of land.
8. How may clubs, associations and the like be distinguished from partnerships?
9. Can a person have a share of profits as compensation for services or use of property without becoming liable as a partner?
10. Why does a different legal effect attach to a share of "gross returns" and a share of "net profits"?
11. What determines the liability to third parties?
12. If a man is interested in the profits of a business, is he necessarily a partner therein? Explain answer.
13. A and B were partners. C was a salesman for the firm, and for his services he was paid one-tenth of the net profits of the firm. The firm owed D \$1,000 on an open account, and D sued A, B, and C as partners. Is C liable as a partner or not? Why?
14. The president of a non-incorporated club buys some furniture for the club. Will the members be liable for the cost of the furniture? Why? Will any of the members be liable?
15. A was a horse-trainer and B the owner of a race-horse. They made an agreement whereby A was to keep, train, and control the horse, and both A and B were to divide the expenses and the winnings. Was this a partnership arrangement?
16. A makes a loan to the firm of X, Y & Co., who agree to pay him a certain percentage of the profits. Does this arrangement constitute A a partner of the firm?
17. A and B make an agreement whereby A agrees to run B's factory and B agrees to pay A a certain percentage of the profits. Is this a partnership arrangement?
18. B and L make an agreement whereby B furnishes a farm, team, and some labor, and L furnishes the greater part of the labor and agrees to manage the farm. The profits are to be divided as follows: two-thirds to B and one-third to L. Is this a partnership agreement?

CHAPTER XLIV

THE CONTRACT OF PARTNERSHIP¹

§ 288. Parties

As partnership is strictly a contract relation, it is essential that the parties to it be competent to contract. (See under § 38.)

If a minor becomes a partner, his acts will bind the firm, since a minor may act as agent. Should the firm become insolvent, however, the minor may take advantage of his infancy, refuse the partnership liability, and leave his associates to bear the entire burden of the partnership obligations, including those which he himself created, but he cannot withdraw any capital he may have invested in the firm.

A partnership may be entered into between two firms already existing, or between a firm and an individual, as readily as may any other contract. Under such an arrangement the profits, and in case of dissolution the assets, are divided among the component firms or parties, and then subdivided by the firms among their individual members. The individual members of both firms are personally liable to third parties.

A corporation cannot become a partner unless expressly authorized to do so by its charter. It may, however, make itself liable to third persons as a partner if it attempts to enter into partnership relations.

Note:

1. Any person who is capable of contracting may become a partner. Corporations, before they may

¹ For forms of partnership contract, see Chapter CV, Forms 50, 52.

become partners, must be expressly authorized by their charters to do so.

§ 289. Kinds of Partners

Partners are of various kinds. There may be general, limited, dormant, and nominal partners.

General Partners. A general or active partner is one who takes part in the management of the business, and who is liable for the firm's obligations without limitation as to amount. An active partner who wishes to withdraw from the firm and cut off subsequent liability, must give notice to all those with whom the firm is doing business.

Limited Partners. A limited or special partner is one who does not participate to the full in partnership liability. As the price of his limited liability, such a partner must refrain from taking any part in the management. Limited partnerships are formed only where authorized by special statutes. (See § 293.)

Dormant Partners. A dormant or sleeping partner is one who has invested as a partner but whose connection with the firm is secret and who has no part in the management of the business. A dormant partner has no exemptions or privileges beyond those of a general partner, except as a result of the secrecy. If this connection with the firm is discovered he is liable in exactly the same way and to the same extent as any general or active partner. Unless prevented by the partnership agreement, he may at any time assert himself as an active partner and take part in managing the firm business.

A dormant partner who withdraws without giving notice cannot be held to any subsequent liability of the firm, even though his previous connection with it should become known. His withdrawal, however, does not free him from liability for anything done by the firm during his connection with it.

Silent Partners. The term "silent partner" is often used

with much the same meaning as "dormant partner." There is, however, this difference: a dormant partner must be both "secret" and "silent," while a silent partner need not be secret. A silent partner has no voice in the management of the firm business, but may be publicly known as a partner. He is liable for firm obligations just as is any other partner, and if he withdraws, he must give notice to escape subsequent liability.

Nominal Partners. A nominal partner is one who, while not really a partner, in that he has no interest in the business or profits, allows his name to be used or to appear as that of a partner. He is held liable to those who give credit to the firm on the faith or with knowledge of his being a member. He is not, however, liable to a creditor who had no knowledge of his being held out as a partner when the credit was given.

Subpartners. A partner may agree with an outside party to share his interest in the profits and property of the firm. Such an arrangement is termed a subpartnership. It may be entered into without the consent of the firm, and without affecting in any way its existence or operations. The subpartner is not a member of the original firm, is not liable to its creditors, and, under ordinary circumstances, has no right of accounting against it.

Notes:

1. Limited partners should always take care to see that the proper notices and other regulations required by the law of their state have been given and complied with.
2. A retiring partner should take care to see that all those with whom the firm has had dealings are notified of his ceasing to be a member of the firm.
3. A nominal partner is liable only if he permitted his name to be used. One cannot be made a nominal partner against one's will.

§ 290. Partnership Contracts

The customary and the only proper method of forming a partnership is by written articles of partnership signed by all the parties. These articles may be a very simple memorandum of agreement, or they may be expanded into elaborate articles of association, providing for the numerous details and possible exigencies of an extended commercial enterprise.

In spite of the dangers of such a course, partnerships are frequently formed by oral agreement. Under the Statute of Frauds, an oral contract of partnership to last more than a year is not valid. If, however, immediately upon making such a contract, the parties thereto enter upon its performance, a partnership at will is thereby formed, which is legal and is governed as to its terms by the contract, but which may be terminated at any time by either party, regardless of the terms of the contract.

It must be borne in mind that the Statute of Frauds does not apply to oral contracts that may be performed within a year. Such contracts are binding for the specified length of time, and cannot be dissolved at will without incurring a liability for damages.

In many cases of partnership there is neither a written nor a verbal contract which can be proved, but the parties concerned, either intentionally or unintentionally, have acted as partners, have had a common fund in which they exercised a community of interest, and have shared profits and losses. Under such circumstances they will be held to be partners, both as between themselves and as to third persons.

This same principle applies to the case of parties who assume to be incorporated when they are not. It does not apply to those who have attempted to incorporate legally, but have failed in some point of procedure; they would be held to be a *de facto* corporation and as such capable of doing business.

Laws Regulating Formation of Partnerships. Most part-

nerships are formed under common law rules that are the same in every part of the Union. In certain of the western states, however, codes of partnership law, intended to regulate general partnerships, have been enacted. Entirely apart from these general partnership codes, nearly all the states have provided for the organization of partnerships with special or limited partners. The Uniform Partnership Act, prepared and recommended by the National Conference of Commissioners on Uniform State Laws, has been adopted in Maryland, Pennsylvania, Wisconsin, Illinois, Michigan, Wyoming and Tennessee.

Notes:

1. The contract of partnership should always be in writing.
2. The state partnership law should always be consulted in the formation of any partnership, and especially in the case of a limited partnership.

§ 291. The Firm Name

The usual practice where there are two partners is to use both names; the name of the leading partner naturally coming first. If there are more than two partners, all the names may appear, though this is unusual in mercantile partnerships. Usually but one or two names appear, the other names being represented by the addition, "& Co." Professional partnerships on occasion use three and even more names in the firm title.

In the absence of statutory restriction any title that is preferred may be used as a firm name, even though it contains no partner's name, for instance, such a name as "The Ansonia Furniture Company." In New York and some other states a firm using any name other than the names of the partners or some of them, must register such "trade-name," together with

the real names of the partners, in the county clerk's office, under legal penalty. It is also illegal in New York to use the suffix "& Co." unless it represents existing or former partners. Partners may change the firm name without dissolution or any special formality, or may have more than one name for the firm.

All business of the firm should be done under the firm name, although a partnership may exist and be bound without any specific firm name by using the separate names of the partners. The firm signature, as "Herrick, Simpson & Co.," may be written by a partner or by any agent of the firm. If suit is to be brought the names of all the partners must appear in the pleadings. The usual form is "Anselm Cole, Harvey Andrews and James Ellis Jones, partners under the firm name of Cole & Co."

§ 292. Partnership a Personal Relation

It must be remembered that partnership is a personal relation. Such skill and experience as one partner may possess above the others constitute as legitimate a form of investment as any other kind of capital. In many cases these are taken as the full equivalent of the financial investments of other members of the firm. In others, they are regarded as a partial equivalent, and in still others extra abilities are recognized by a special salary or a larger percentage of profits.

As partnership is a personal relation and as one reckless partner may bankrupt his associates, the selection of partners is a vital matter. No one can be forced to accept a partner he does not like. So a new partner may not be admitted except with the unanimous consent of the entire firm.

Because of the importance of the personnel, the death of one partner will ordinarily dissolve the firm.

Note:

1. Partnership is a personal relation and a partner should always be a man who can be trusted.

§ 293. Classification of Partnerships

Partnerships may be roughly divided into two classes, general and special. While this classification covers the majority of cases, there are a few forms involving peculiarities of partnership law, such as limited partnerships and joint-stock companies, which require separate discussion.

A general partnership is the usual partnership formed for the continued prosecution of some general line of business. It is the commonest form of partnership. General partnerships may be either trading or non-trading.

Trading partnerships include all those formed for the purpose of buying, selling, and manufacturing.

Non-trading partnerships do not buy, sell, or manufacture as a principal feature of their business. These partnerships include professional partnerships, firms of brokers, etc.

A special partnership is formed for the transaction of some single piece of business, or for the conduct of some one line of business. Examples of special partnerships are as follows: a partnership to buy and sell some definite piece of land, to ship a cargo to some particular place, to buy and operate a threshing machine, to finance and sell a particular patent, or to deal in specified stocks. A common form in the present day is the syndicate organized for the promotion or financing of some large corporate enterprise. Special partnerships are often termed "joint ventures." It is to be noted that a special partnership means one undertaken for a special business, while a special partner simply means a limited partner.

A limited partnership may be formed only under special statutes. It differs from the ordinary partnership in that certain of its partners are silent, or inactive, and the liability of

these partners is limited to the amount actually invested by them. These partners are called special partners. If a partner whose liability is thus limited takes active part in the conduct of the partnership business, his status changes and he at once becomes liable as a general partner.

The restricted liability enjoyed by the special partner can be secured only by strict compliance with the statutory directions. These usually prescribe notice to the public of the formation and nature of the partnership and require that a certificate and affidavit of the limitations of the partnership be filed in some office of public registry. In New York a limited partner must contribute his capital in cash. In all cases the local statutes should be examined, and their directions followed implicitly. In a New York case a limited partner was held by the courts to be in fact liable as a general partner merely because the affidavit—stating that cash had been paid by the limited partner—was filed at a time when he had in fact given only a check dated a few days in advance.

A joint-stock company is a form of business organization formerly popular but now practically obsolete. It is not organized under any statute, and, though usually adopting a corporate name and having some of the features of a corporation, is merely a copartnership, and the shareholders are responsible for the debts of the company as in partnership.

An important difference between such an organization and an ordinary partnership is that its members may transfer their interests exactly as stockholders do in a corporation. If there are many members, affairs are usually managed by a board of trustees or managers, and the individual members have no authority to act in the company affairs.

In New York and some other states various forms of joint-stock companies, partnership associations, and other ambiguous organizations between partnerships and corporations are authorized by statute. These statutes and the deci-

sions of the state courts construing them must be consulted to ascertain their legal status.

REVIEW QUESTIONS

1. What is the law as to a minor's becoming a partner?
2. What is a general partner? A limited partner? A dormant partner? A nominal partner? A subpartner?
3. What is a limited partnership? What does your own state law prescribe for the formation of a limited partnership?
4. What is a partnership at will?
5. In the event that the name of a partnership does not clearly indicate who all the principals of the firm are, what is necessary for such a firm to do in order to bring suit?
6. Why should a partnership agreement be written? How can parties drift into a partnership?
7. What is a special partner? What is a special partnership?
8. What are the peculiarities of a joint-stock company?
9. What matters should be specified in articles of copartnership?
10. Prepare a short form of partnership agreement for equal partners.
11. Prepare a copartnership agreement that shall provide for a period of five years notwithstanding the death of one of the partners in the meantime, and provide also for payment of interest on investments, salaries to partners, and a method of determining and apportioning profits and losses.
12. A buys the share of M in a partnership composed of M, N, and O. Does that make him a member of the firm? Explain answer.
13. B withdraws by agreement from a firm of which he has been a member, but no announcement is made and he allows his name to be used on the letterhead. The firm becomes insolvent. What is B's position?

CHAPTER XLV

PARTNERSHIP PROPERTY

§ 294. Nature of Partnership Property

The partnership investment is the money or property, tangible or intangible, contributed by the partners for the purposes of the business. The original property of a partnership is derived from the contributions of the partners. When profits are made, they may be drawn out, or they may be allowed to accumulate and meanwhile may be used in the prosecution of the firm's business. If retained in the business they are practically merged in the original capital, the two together constituting the partnership property.

Any property purchased with partnership funds becomes *prima facie* partnership property. If such property is taken in the name of a single partner, he holds as trustee for the firm. The firm name, the good-will of the business, and any trade-marks used in the business are the property of the partnership, in which each partner has his interest.

When the business is sold, the firm name passes with it. If the business is sold as a whole, the good-will passes with the firm name and the tangible assets.

A firm as such cannot hold real estate. Hence, land must be deeded to the members of a firm to hold as tenants in common, or to some individual, who is usually a member of the firm, to hold as trustee for its benefit. A conveyance of real estate to a firm by name, in cases where the firm name contains the name or names of existing members, passes a legal title to the members named, who will hold in trust for

the whole firm. If no member is named in the firm title, no title passes to anyone, but the seller can later be compelled to deed to the individual members of the firm.

Real estate held for the benefit of the firm is, for all partnership purposes, treated as personal property. The money or property invested in a partnership and any property acquired by the firm is partnership property. Each partner may deal with it in the firm business as an agent of the firm, but he has no personal right to any of it.

A partner has no claim to interest on his investment, nor even to interest on money put in, over and above his agreed investment, unless it has been expressly so agreed. It is always possible for a partner to advance money or to let the firm have the use of property of which he retains the right to possession, and such money or property remains his individual property. Money or property, however, put into a partnership as an *investment* becomes the actual property of the partnership.

Power Over Personal Property of Firm. Each partner's power over the property of the firm is the same. Each is agent for all the others in everything that pertains to the care, sale, and management of the partnership property.

A partner has full power to buy and sell personal property within the scope of the partnership business, and the firm is bound by his transactions. This power does not extend to the sale of property used by the firm for carrying on the firm business, as such a sale would tend to destroy the partnership business. Where a sale is to be made of the stock in trade, or of the entire assets, or of fixtures or furniture, all of the firm should join in the assignment.

Power as to Real Estate. One partner cannot make a valid deed to real estate held by the firm, but he can, when such contract is within the scope of the partnership business, make a contract to convey, which the courts will compel the firm to

perform. Likewise, in a similar case, a partner can make a valid contract for the purchase of land by the firm.

A partnership may be formed by either written or verbal contract for the express purpose of buying and selling real estate. In such cases the realty is treated for all partnership purposes as if it were personalty.

For a legitimate purpose a partner has also the right to pledge or mortgage the real property of the firm. He has, however, no power to sell property of the firm or to borrow money upon it for his own purposes or to pay his own debts, and anyone lending him money, or buying property from him under such circumstances, with knowledge, takes no title to the property in question.

The wife of a partner has no right to dower in real estate held for the purposes of the firm until all the claims of creditors and of all the other partners have been satisfied. In a solvent firm, however, the wives of the partners would be entitled to dower, and when such property is sold the wives should release their dower rights.

Notes:

1. A partner has a right to make use of firm property for the purposes of the business in common with all the other partners.
2. He has no right to firm property personally until the firm has been wound up and the assets divided, unless he has loaned property with the express provision that it is to remain his individually.

§ 295. Liability of Partnership Property for Debts

A partner's interest can be reached by attachment or by execution. This interest, however, is merely a right to a certain proportion of the surplus after debts are paid and the affairs of the partnership are adjusted, and this is all that can

be reached by legal process. The effect of the sale of a partner's interest under execution would be to give the purchaser the right to merely the same interest in value that the debtor partner had. Such a sale would make necessary the dissolution of the partnership, and the immediate settlement of its affairs, for all partnership debts must be settled before anything is set aside for a purchaser under execution.

Execution following judgment on a claim against the firm runs in the names of the individual partners, and can be levied on the partnership property, or on the individual property of any of the partners. If it is levied on individual property, the partner to whom such property belongs has recourse against the other partners for their proportions of the debt.

In event of insolvency the partnership assets should be applied to the payment of the partnership debts, and the separate assets to the payment of the individual debts, and any surplus from either class should be carried over to the payment of the other class. This process is called "marshaling the assets."

On execution against the partnership there can be no claim for homestead or exemption out of the joint assets. This is the general law, but it does not apply to New York and a few other states, in which the provisions of the exemption law extend to property owned by a partnership of which the debtor was a member. (See § 300.)

Assignment for Benefit of Creditors. An assignment for the benefit of creditors can be made only by all the partners acting together. If, however, one partner makes such an assignment, the others may, if they choose, ratify his action, thus making the unauthorized assignment valid. In case a partner has absconded, or cannot be reached, the remaining members of the firm, acting together, may make a valid assignment.

It has, however, been held in New York that one partner

may transfer the partnership effects directly to a creditor of the firm, without the knowledge or consent of his associates, and that the courts will sustain his action.

Under the National Bankruptcy Law, however, in any case where an assignment is made when the firm is insolvent, any aggrieved creditor may proceed under the Bankruptcy Act.

For the liability of individual partners to third persons, see §§ 287, 300.

Note:

1. If an assignment of partnership property has been made, any creditor can institute bankruptcy proceedings.

§ 296. Profits

The sharing of profits is an essential feature and the usual object of a partnership. Ordinarily these profits are ascertained by deducting the current expenses from the current receipts, or gross profits, or, on dissolution or any general accounting, by deducting the firm indebtedness and the original partnership investment from the total partnership assets. As there is often room for differences of opinion as to what constitutes profits, it is well to define in the articles of association how they are to be determined.

In the absence of a special agreement otherwise, the common law rule governs the division of both profits and losses. Under this the partners must share equally, without any variation, or any allowance for the greater value of services rendered, the greater amount of time devoted, or the greater investment made by one or the other of the partners. This is usually arranged by agreement, however, so that partners who devote more time or money to the business, receive a more nearly commensurate return. Salaries for services and interest on investments are sometimes provided for in the partnership agreement.

The rule of good faith requires that all profits made within the scope of the partnership business shall be turned in for the benefit of the entire firm. If any partner violates this rule and uses his position in the firm and the knowledge he has of the business to secure any secret rebates, commissions, or other profits for himself, he will, if discovered, be held liable to the firm for the amount so realized.

If a partner uses firm funds in his private speculations he can be compelled to account for any profits. If the result is a loss, he must bear this himself, returning the partnership funds intact. This rule also applies to the use for private gain of time or skill which should be applied to the firm business.

Right to an Accounting. Every partner is entitled to have accurate accounts kept. The right exists whether or not any reference has been made to it in the terms of agreement. This makes it the duty of each partner to keep an accurate record of his own transactions concerning the firm business. If, as is usually the case, some one partner or some particular employee is designated to keep the firm's books, it is the duty of each partner to furnish such accountant full information as to his transactions.

It is also the right of every partner to have access to the firm's books and accounts and to make extracts therefrom.

In closing the books to ascertain amounts due partners the partners are bound by a bookkeeper's statement either by mutual signature thereto, or by failure to object within a reasonable time after submission to them of the statement, or by any action which would imply acceptance.

Notes:

1. Any proposed extra share of profits to any partner should be specified in the partnership agreement.
2. The books of account should always be kept at the office of the firm, or, if it has more than one, at the principal office.

3. Partners should make every effort to keep their accounts straight, for, if the accounts have been garbled or falsified or the books mutilated, every presumption will be allowed against the partner who is at fault.

REVIEW QUESTIONS

1. What is the capital of a partnership?
2. What does the partnership property include?
3. May a firm pass title to personal property of the partnership by bill of sale in the business name of the firm?
4. May a member of a firm sell out the entire assets?
5. Can a partner sell firm real estate?
6. May a good title to firm realty be passed without the wives of the partners joining in the deed?
7. A and B are partners. C recovers a judgment against A for a personal debt, but can find no personal property on which to levy. What can C do? What effect has the bankruptcy of one of the partners upon the partnership?
8. Define partnership profits. What is the general rule for division of profits? If the partnership agreement merely provides for division of profits, how will losses, if any, be borne?
9. A firm composed of three members was about to dissolve partnership and go out of business. It occupied, and had for many years, premises which the firm leased and did not own. One of the members, without the knowledge of his copartners, obtained a lease of these premises some time prior to the dissolution of the firm, but when it was contemplated; the new lease to begin when the old one expired. After the dissolution, he sold the lease for a large sum of money. Is he under any obligation to account to his partners for the profits thus realized as if the same were partnership property? Give reasons for your answer.
10. A and B are in partnership under a written agreement whereby A because of his greater investment and experience is to have two-thirds of the profits, nothing being said as to losses. At

- expiration of one year the firm dissolved, having lost \$5,000. How will this loss be apportioned? Why?
11. When a judgment is obtained against a firm, can execution be levied on the personal property of the members?
 12. How should the assets of a copartnership, and the assets of the respective individual members thereof, be applied when the several members owe individual debts in addition to the debts owed by the copartnership?
 13. In closing books to ascertain amounts due partners, what is it necessary to do in order to bind partners to results shown?

CHAPTER XLVI

POWERS AND LIABILITIES OF PARTNERS

§ 297. Powers of Partners

In a partnership each partner has equal authority with the others and is held to be the agent of the others, and of the firm, for any transactions within the scope of the partnership business. Hence each partner within this limit is bound by the acts, the contracts, and even the frauds of his associates, and is responsible for the obligations and liabilities so created as fully as if he had himself acted or contracted.

In the absence of special restrictions on the agency powers of the partners, they are limited only by the scope of the partnership business and by the ordinary limitations of the powers of agents. Thus, under his general powers, a partner acting alone may bind the firm in any matter properly within its business operations. He must, however, be authorized before he can bind it by executing a sealed instrument in the firm name.

Partnership notes, as firm obligations, come under the general rules for mutual agency. Every member of a trading firm has a right to make and indorse notes, and to make, accept, and indorse drafts and other commercial paper in the firm name. One of the members may use this power fraudulently, or for his private benefit, but, unless the payee or owner of the note is aware of this fact, the firm is liable on the note.

In the case of a non-trading or professional partnership, however, it is not customary for the partners to bind the firm by issuing negotiable paper, and unless it can be shown:

(1) that the partner was authorized to issue commercial paper, or (2) that in the particular business it was in accordance with usage for the partnership to bind itself in this manner, the firm is not bound.

If the business does not require notes or contracts, any such instrument signed by a partner with the firm name may be rejected or accepted at discretion by the firm. If rejected, it cannot be enforced against the firm, though the partner signing would be liable.

A person with a claim against a partner cannot safely take in settlement a note signed by him with the partnership name, as such an act would be clearly beyond the ordinary authority of the partner, but if such a note were issued and was passed on for value to an innocent holder it would bind the firm. An indorsement of the firm name by a partner on the note of a third party, outside of the scope of the partnership business, would be void.

It is always possible to restrict the powers of any one or all of the partners as among themselves by limitations in the articles. Such restrictions do not, however, affect third persons, unless they have had notice of the same. In a limited partnership, the partner whose liability is limited can take no part in the management. In such a case the limitations of his powers and the general nature of the partnership are notified to third parties under the provisions of the laws regulating such partnerships.

The majority rule in a partnership, each partner being entitled to an equal voice in the management of its affairs without regard to the amount of his investment. The majority may decide all matters of business policy and all questions relating to the general conduct of the business, and when and to what extent profits are to be divided, so far as these matters are not prescribed in the articles of copartnership. The majority must, however, in all cases rule fairly, must

consult with the minority in regard to any proposed action, and must allow the minority to be heard in discussion of the same. They cannot apply the capital to new undertakings outside the scope of the partnership business, nor can they seek their own interest as against the common interest.

Where the partners are evenly divided concerning any proposed action, a deadlock results and those who want to make a change are at a disadvantage. In a partnership of two no change can be made and no new action undertaken unless both can agree. Where articles of copartnership exist no change can be made in any part save by unanimous consent of all the members of the firm. Disputes among partners generally result in dissolution and final accounting. Some partnership agreements provide for arbitration, but the courts generally refuse to sustain arbitration and decree a dissolution instead.

A single partner, by reason of his powers as an agent of the firm, may often commit his associates to action against their wishes. In such case, the only remedy is to dissolve the partnership.

A partner as such does not generally have authority to do any of the following acts, except where his partners have wholly abandoned the business to him or are incapable of acting:

1. To confess judgment.
2. To dispose of the good-will of the business.
3. To make an assignment of the partnership property to a creditor, or to a trustee for the benefit of a creditor or of all creditors.
4. To do any act which would make it impossible to carry on the ordinary business of the partnership.
5. To submit partnership claims to arbitration.

As to partner's power over firm property, see § 294.

Notes:

1. If any restriction is to be made on the agency powers of a partner, all those dealing with the firm should be notified in order to protect the firm.
2. A person dealing with a partner is bound to know what the nature of his business is, and it is his own fault if he accepts notes and contracts that are void because they are not within the limits of the partnership business.
3. If a partner is not trustworthy, he may bind his co-partners without right.

§ 298. Liabilities to Copartners

Partnership is practically a personal relation, and those who enter it are expected to act honestly and fairly toward their associates. No partner may seek his own advantage at the expense of his associates, nor may he make any personal and private profit out of a transaction in the line of the partnership business. All transactions must be for the common good, and in important matters a partner should consult his associates before taking action.

A partner will not be allowed to retain an unfairly made profit, nor to compete with his firm. He may, unless expressly restricted by his partnership agreement, carry on an independent non-competing business of his own, provided that it does not interfere with his duty to his firm. Any profit made in a competing business, or in a business that did interfere with the firm business would be held to have been made for the firm, and the other partners could compel their associate to account for his unfair profits. He would be a trustee for the firm for any gains made. A partner would also be a trustee for any property purchased in his name with partnership funds.

In the absence of any restrictions in the articles, a partner

may give to non-competing ventures time which might have been devoted to partnership affairs. He may also use information acquired by him in the partnership business in his private undertakings, provided these latter are not within the scope of, and do not compete with, the business of the firm.

Notes:

1. Good faith is necessary in all dealings between partners.
2. The partnership agreement should provide that each partner shall give his whole time, or a specified part of his time, to the partnership affairs.
3. A partner can retire at any time and so dissolve the partnership.
4. A retiring partner should examine the local laws with care to make sure he has complied with the legal requirements for notice of the severing of his connection with the firm.

§ 299. Intra-Partnership Relations

A partnership is not a separate entity as is a corporation. It cannot sue or be sued in the firm name. Suit against a firm or by a firm is a suit against or by the individuals who comprise it. Therefore a partner cannot sue the firm, neither can the firm sue one of its members.

In event of partnership controversies, which cannot be settled by conference, by buying out one or more partners, or by arbitration, the only recourse is a dissolution and accounting.

A partner cannot sue another partner for any matter relating to the partnership but can sue him for any individual cause not relating to the partnership.

Two partnerships having common members or a common member cannot bring suit against each other. In some partnership cases when actions at law will not lie, an action may be brought in equity but in such case it usually means the

dissolution of the firm. The general rules of equity in partnership cases are:

1. Not to interfere except to dissolve the partnership.
2. Not to interfere in internal disputes.
3. Not to interfere on behalf of the offending party or where the party applying has been negligent in making application.

In some cases, however, a court of equity will grant an injunction without decreeing a dissolution. It would require legal advice to ascertain when the aid of equity can be had in a partnership controversy.

§ 300. Liabilities to Third Persons

Where a partnership is admitted or proved, and where a contract within the scope of the partnership business has been made by a partner, each individual partner is liable, and in case judgment is had against the firm, executions may be levied on the firm property, or on the separate property of any one of the partners. That is, the creditors may take judgment against all the partners and may then proceed to collect their claims from firm assets or from the property of any one or more of them, leaving the partners to adjust the matter between themselves afterward as best they may.

A partner is liable in damages for the torts, frauds, and wrongdoing of his partner within the scope of the partnership business, but usually he will not be held criminally liable.

A partner who has been taken in after the partnership has been formed is not responsible for obligations or acts of the firm prior to his entrance, unless he expressly assumes them.

Notes:

1. In order to enforce partnership liability, third persons must as a rule prove the existence of a partnership.

2. The onerous character of partnership liability demands prudence in selecting a partner.

REVIEW QUESTIONS

1. What relation of a partner to the firm gives him authority to act? What is the limit to this authority?
2. Has a partner authority to make and indorse commercial paper for his firm? If he discounts the firm note for his own benefit, is the firm liable? What is the rule for professional partnerships?
3. What effect do limitations on partners' powers in articles of copartnership have on outsiders?
4. A sells goods to a partnership on the customary terms in his line, namely, four months' credit. The goods are delivered and used by the firm, but when the amount is due, payment is refused on the ground that the partnership articles stipulate that no partner shall bind the firm to a time-purchase contract, but that all purchases shall be cash. A knew of this agreement. Can he recover? Explain the theory.
5. How are differences of opinion settled in a partnership?
6. What things are beyond the authority of a partner to do unless specially authorized?
7. May a partner take part of his time for his own affairs? What is the effect if he engages in a business that competes with the firm business?
8. Can one partner sue another? Can one partner bring suit against the firm? Can the firm bring suit against one of its members?
9. May one partner bring suit against another for what may be due him on partnership account?
10. If a partner buys a debt against his firm, can he collect it by law?
11. What is the liability of an incoming partner?
12. Is the new member liable to creditors of the old firm by a contract made with the members of the old firm to assume the old debts and be liable for them as old members?
13. When would a partner be a trustee for his firm?

CHAPTER XLVII

TERMINATION OF PARTNERSHIP

§ 301. Termination by Agreement

Upon the expiration of its term as limited by the partnership articles, the partnership will be dissolved in any particular manner prescribed by the articles, or, in the absence of such provisions, in accordance with the rules of law.

A partnership may be dissolved at any time by unanimous agreement regardless of the period fixed by the articles. If any of the partners wish to continue the business, they may buy out partners who wish to retire or who are dissatisfied.

In many cases the most satisfactory method of disposing of a partnership business worth preserving, is by incorporation. This is preeminently a dissolution by agreement. (For methods of incorporation, see Chapter L.)

§ 302. Enforced Dissolution

A partnership may be terminated by the death or bankruptcy of a partner, or by the sale of his interest. It may also be dissolved because of the impossibility of continuing the business for any reason, or by the bankruptcy of the firm. Mere insolvency may exist for an indefinite period without affecting the partnership relation, but an assignment by the firm for the benefit of creditors, or an adjudication of bankruptcy terminates the partnership.

If a partner sells his interest in the firm to a stranger, it would usually terminate the partnership. Neither the stranger nor the other partner or partners, can be forced to accept

each other as partners and either can take steps to wind up the firm's business.

If a partner wishes to terminate his partnership relations, he may do so at any time simply by giving notice: (1) to the members of his firm, (2) to those dealing with the firm, and (3) to the public generally. If the partnership was for a given term which has not expired, the partner may be liable in damages to his associates for his breach of the partnership contract, but he cannot be compelled to remain.

After giving proper public notice of his withdrawal, the retiring partner is no longer liable for the future transactions and obligations of the firm. He remains liable, however, on the obligations contracted while he was a member of it. The matter of notice is important, as it is the only way in which liability for the future obligations of the firm may be escaped.

Owners of a business concern which had changed from a partnership to a corporation have been held personally liable for the debts of the corporation because they neglected to notify those with whom they were dealing that the business had been incorporated.

When a partner dies or becomes bankrupt, or when war is declared between the countries to which the respective partners belong, the partnership is forthwith terminated, the relation of mutual agency ceases, and neither a partner nor the representative of a partner can bind the partnership nor the property or estate of either partner further. Nothing can be done except to liquidate, pay debts, and wind up the partnership affairs.

The insanity of a partner does not work a dissolution, but may be a sufficient reason for asking a dissolution by decree. If the insanity is temporary, the courts will not decree a dissolution.

Where it becomes apparent that only loss can result from the further prosecution of the partnership business, any part-

ner, if his associates will not agree to a peaceable termination of the business, can obtain a judicial dissolution.

A breach of the articles of partnership by any of the partners, bad faith, or misconduct so serious as to affect the credit and success of the business or to make it impossible for his associates to work with him, is good ground for dissolution.

In case a person has been induced to enter a partnership by false representations, he can at once dissolve the firm or bring suit to have the whole contract rescinded and cancelled.

In all of these cases, proceedings may be instituted to have the partnership dissolved and to secure an accounting. If necessary, an injunction may usually be had restraining the defendant partners from making new firm obligations, from interfering with or disposing of firm property, or from further conduct of the firm business. The appointment of a receiver is an extreme measure to be resorted to only when the interests of some member of the firm, or of outside creditors are in urgent need of protection. The courts are slow to grant it.

The right to an accounting is a necessary corollary to the right to profits. An accounting is a necessary incident of a dissolution unless the parties have already agreed upon a settlement, which would be a bar to the right. The usual procedure is to appoint a referee, or refer the accounting to a Master in Chancery to examine and report the terms of the partnership, the accounts that have been kept, the capital invested and withdrawn, the profits and the losses, the assets and liabilities, and the proportion in which these should be shared among the partners. The court then makes its orders in accordance with this report, and the receiver, or the partner or partners in charge, will close up the business pursuant to these directions.

Notes:

1. Where it is necessary actually to wind up the business, any agreement reached between the partners

should provide for a trustee to take charge of the settlement on behalf of the partners. The agreement should direct the closing up of the business, the liquidation of its assets, the collection of outstanding debts, the settlement of its obligations, the partition of losses or the division of profits, and the withdrawal of the investments of the partners.

2. Under no circumstances have the partners in an ordinary partnership the right to expel an objectionable member. The only way to get rid of such a partner is through a dissolution of the copartnership.
3. The legal enforced dissolution of a partnership is slow and costly and if possible should be avoided. Almost any agreed dissolution would be better.

§ 303. *Winding Up the Business*

Rights and Interests of Partners. Unless otherwise agreed, the amount of each partner's investment is returned to him in full on dissolution of the partnership, if there are sufficient assets. Any remainder, as profits of the business, is then divided in equal proportion among the partners. If losses have been incurred, the losses must first be apportioned equally among the partners, and the amount to be paid each on his investment account must be diminished by this amount.

If one or more partners are bought out, the business passes as a going concern into the hands of the remaining partners. If the partnership is dissolved by proceedings in equity or in bankruptcy, the receiver or trustee takes charge, and the partners turn over the assets to the receiver and have nothing further to do with the business other than to give such information as will aid him in his work.

If the partnership is incorporated, the corporation usually

succeeds to the assets, name, good-will, and location of the firm, and the business is continued as a going concern with the minimum of disturbance.

Duties of Partners on Dissolution. If the business is terminated by agreement, by limitation, or by the death, insanity, or insolvency of a partner, it is usually wound up by the surviving or liquidating partner or partners.

When surviving or liquidating partners take charge, it is their duty to notify people who have dealt with the firm of its dissolution and of the fact that they are engaged in winding up affairs. It is also the duty of these partners to dispose of and fulfil any existing contracts, to dispose of the partnership property to the best advantage, to discharge all debts and obligations, and to turn over to each person entitled thereto his due proportion of the surplus.

Right of Surviving Partner. In the case of the death or resignation of a partner, the surviving partner or partners have a right of possession for the purpose of settling up the affairs of the partnership, but after this is done the right of possession ceases, and each of the partners has the right only to his proportion of the partnership assets when converted into cash.

A surviving partner or partners would have power to sell property of the firm and do all other things necessary to wind up the business.

After the assets of the firm have been turned into cash and the debts have been paid, it is the duty of the surviving or liquidating partners, first, to repay any advances above the stipulated investment of capital to the partners who made them; next, if the funds permit, to return the capital of each partner. Any surplus is then divided among the partners in such proportion as the partnership agreement may provide, or, if there is no provision therefor, in equal proportion.

The surviving partner, if he continues the business, must

account for the value of the good-will of which the firm name is part.

Notes:

1. Surviving or liquidating partners have no power to bind the firm to new contracts or to undertake new business. Ordinarily they are not entitled to compensation for their services in settling the firm's affairs, unless the business is to be carried on for some time.
2. The good-will of a business is often a most valuable asset. To secure compensation both for the good-will and the firm name, it is usually necessary to sell the business as a going concern.

REVIEW QUESTIONS

1. In the absence of an express agreement, what is the rule for determining the duration of a partnership?
2. How could a partnership be terminated by one of the partners before the time fixed in the articles?
3. What happenings will terminate the partnership relation?
4. Can a partner sell his interest in a firm, and if so, would the purchaser be a member of the firm?
5. A, who is in partnership with B, desires to withdraw from the firm because of B's business methods. A offers to sell his share to B. The latter refuses to purchase. A then assigns his interest in the business to C, but B refuses to accept C as a partner. What are C's rights?
6. What notice should a retiring partner give? Why?
7. If a retiring partner agreed with those remaining that they should assume all debts, would that protect him as against existing creditors?
8. Would the admission of a new member terminate the old partnership and create a new one in law? Need it have that effect in practice?
9. When may a receiver be appointed?

10. Why should an enforced dissolution be avoided? Suggest some better methods of winding up a partnership.
11. In winding up the affairs of a partnership: (1) What is the rule as to investments? (2) What is the rule as to profits? (3) What is the rule as to losses?
12. Is the capital of each partner necessarily the amount due him from the firm? In your state has a special partner prior right over the other partners in the distribution of the capital surplus?
13. In case of death of a partner, to whom does legal title to firm assets pass? Can a sole surviving partner sell property and give good title? Can a sole surviving partner make a general assignment without consent of representatives of deceased?

PART IX

CORPORATIONS

CHAPTER XLVIII

NATURE OF CORPORATIONS¹

§ 304. Corporate Entity

A corporation is an artificial person, created or authorized by the law for some particular purpose or purposes. It has, therefore, only those rights and powers which are given it by the law. These vary in the different states but are in all cases sufficient for the demands of ordinary business.

A corporation is usually composed of a number of persons associated together, though it may, and sometimes does, consist of but one or two members. These members, or stockholders, are not, however, the corporation. They compose it, but the corporation has a name, an entity, and an existence of its own, entirely apart and distinct from that of these members. Under its corporate name it may conduct business, make contracts, and bring suit. So absolutely different is the corporation's existence from that of its stockholders that it may enter into contracts with these latter, may sue them, or be sued by them.

305. Classification

A logical classification is that which separates all corporations into: (1) public and (2) private corporations.

Public corporations are those formed by the community for its own governmental purposes, as in cities, villages, and towns. These are also called municipal corporations.

All other corporations are private corporations.

Corporations formed to conduct public utilities, such as

¹ See Chapters CVI to CVIII, corporate forms.

railroads, turnpikes, and telegraph systems, or to supply water, gas, and electricity, if they are conducted for private gain, are properly classed as private corporations. They are sometimes called "quasi-public corporations" because they render services more or less essential to the public. More often they are termed "public utility corporations."

A moneyed corporation is one authorized to engage in the business of using money for the sake of making a profit upon it as money, such as banks, mortgage loan or trust companies, insurance companies, etc.

Corporations may also be classed as: (1) corporations sole, those consisting of a single person; and (2) corporations aggregate, those consisting of two or more persons. ✓

Private corporations may be divided into corporations without capital stock and corporations with capital stock.

§ 306. Corporations Without Capital Stock

Most religious, educational, charitable (eleemosynary), and social organizations belong to this class. They are non-stock, or membership corporations. In some cases certificates of membership are issued to the members, but these are not stock certificates and are not usually transferable. When corporate action is taken, each member has one vote without regard to the amount of his financial interests, if any, in the corporation.

The body of modern corporation law has to do with the stock corporation.

§ 307. Corporations With Capital Stock

Stock corporations have a capital stock divided into shares, usually of like amount, which are evidenced by transferable certificates of stock. These stock certificates are issued to the members of the corporation, who are termed stockholders, the certificates evidencing the number of shares which each owns.

The ultimate control of the corporation rests with the stockholders, who act in meetings and by vote. Each share of stock usually entitles its owner to one vote in stockholders' meetings hence those owning a majority of the shares control the corporation. When profits are to be divided, they are distributed among the stockholders in proportion to the number of shares owned by each.

On account of the convenience of the system, all corporations intended for profit are organized as stock corporations.

§ 308. Distinctive Features

The distinctive features of a modern stock corporation may be summarized as follows:

1. Its creation and regulation by the state.
2. The limitation of the corporate powers to the objects specified at the time of its creation, or later by amendment.
3. The limitation of the liabilities of the stockholders. ✓
4. The distinct entity of the corporation for all legal and business purposes.
5. The comparative permanence of its organization.
6. The representation of the interests of the stockholders in the corporation by transferable shares of stock.
7. The corporate mechanism of directors, officers, and agents, working under definite rules of action.

These features are possessed by every stock corporation, and every organization possessing them is a stock corporation.

§ 309. (1) Creation by the State

A partnership may be formed by the mere agreement of the parties. A corporation, on the contrary, may be created only by the state. Formerly each corporation was created by a separate legislative enactment. Today the formation of

corporations is governed by general laws. These laws vary in minor details in the different states. All are alike in their general plan and scope. In each state, the legal requisites are to be found in the state law.

§ 310. (2) Limited Powers ✓

An individual or a partnership may engage in any business that seems best, and may change from one business to another at pleasure. A corporation, on the contrary, is limited to those purposes enumerated in its charter. If it is desired to engage in any other business, it must amend its charter.

§ 311. (3) Limited Liability ✓

Subscribers to the stock of a corporation are liable to the corporation for their subscriptions. Calls for payment on unpaid stock must be impartial and uniform, that is to say, calls must be made on all subscribers alike. If the subscriptions have not been paid, the corporation, or its creditors in case of its insolvency, can compel payment. A subscriber cannot repudiate his subscription. If subscriptions have been accepted by the corporation at less than par, corporate creditors can usually force payment of such additional amounts as will render the stock full-paid. (See § 353.)

A subscriber to stock who fails to make his payments is chargeable with interest from the time he makes default. He must pay both principal and accrued interest before he can claim a negotiable certificate of stock.²

A subscriber to stock, being sued for payment, and claiming that he was induced to subscribe through fraud, must show that the agent was duly authorized by the corporation, that his statements were in fact of the condition of the corporation in past or present time and that his representations did materially influence the subscriber to take the stock.

² Cook on Corporations, 112.

Beyond this liability, known as the subscription liability, stockholders have in most states no individual liability for any indebtedness of the corporation.

§ 312. (4) Legal Entity of Corporation

The distinct legal entity of the corporation may best be shown by a comparison between corporations and partnerships. The difference is radical.

A partnership is merely a collection of all the individual partners. Hence each partner represents the partnership fully, can make contracts for it without consultation with other partners, and can bind it by his action. On the other hand, he cannot contract with his partnership, bring suit against it, or be sued by it, any more than he could so act with or against himself. In any suit by or against a partnership each partner must be named.

A corporation, on the contrary, is itself a legal entity, distinct from its stockholders. These stockholders as individuals do not represent it, cannot make contracts for it, nor bind it in any way. Each may, however, deal with the corporation as with a stranger, may contract with it, may sue it, may be sued by it. A corporation sues or may be sued by its corporate name and the members' or stockholders' names do not appear.

§ 313. (5) Permanence

A partnership may be dissolved at any time, at the will of any partner, and is necessarily dissolved if a partner dies, becomes insolvent, or sells out to a stranger. A corporation, on the contrary, continues for the term of its existence, uninterrupted by the dissatisfaction, financial embarrassment, death, or retirement of its stockholders. Its entire membership may change again and again, but the corporation continues.

§ 314. (6) Stock System

The division of the stock of the corporation into shares represented by stock certificates, transferable by indorsement, is one of the most convenient features of the modern corporate system. It permits the investment of varying amounts, and gives each investor his proper proportionate interest both in the management and in the resulting profits of the business. It permits a ready sale of part or all of the stockholder's interest to some other investor. In case of his death it renders the transfer or division of his interest a simple matter. It is in striking contrast to the difficulty of transferring an interest in an ordinary partnership.

§ 315. (7) Corporate Mechanism

A corporation is created by the grant of a charter from the state, which in general terms defines the rights and powers of the corporation. After this charter has been allowed, the incorporators hold a meeting and adopt by-laws which lay down the lines along which the business of the corporation is to be conducted. The stockholders elect a board of directors, which, subject to the regulations of the charter and by-laws, controls and manages the business and property of the corporation.

The directors at their first meeting elect officers and take such other action as may be necessary to inaugurate the corporate activities. Thereafter they hold their meetings from time to time as may be required by the by-laws or the necessities of the business.

§ 316. Attractiveness to Investors

As a consequence of the advantages enumerated, and because of the liabilities and inconveniences of the partnership, the corporate form is peculiarly attractive to the investing

public. Created by the state for a fixed period, it is not liable to sudden or unexpected termination. The rights and liabilities of all concerned are defined by law and well settled by custom. It permits investment to a definite extent without indefinite or continuing liability and without the necessity of the investor becoming identified with the management.

§ 317. Disadvantages of the Corporate Form

The disadvantages of incorporation result from the fact that special reports and special taxes are required of corporations, above those required of sole traders or partnerships.

Most states require reports as follows:

1. Local tax reports.
2. State tax reports.
3. Federal tax reports.
4. Annual reports of officers, etc.
5. Reports in each state outside the home state in which the corporation does business.

The taxes paid by corporations at various times are as follows:

1. Organization taxes payable to the state for incorporation.
2. Annual franchise taxes paid to the state under the laws of which it was incorporated.
3. Annual taxes on property.
4. Federal income and excess profits taxes.
5. Inheritance taxes on stock.
6. Stock-transfer tax.
7. Taxes and license fees in each state outside the home state in which the corporation does business.
8. Excise taxes.

REVIEW QUESTIONS

1. What is a corporation? Distinguish a corporation from its membership.
2. Distinguish between public and private corporations. What are public utility corporations? What is a moneyed or financial corporation?
3. Distinguish between stock and non-stock corporations. To which class do all business corporations belong?
4. What are shares of stock? What are stock certificates?
5. What is a moneyed corporation? What is a corporation sole? What is a corporation aggregate?
6. What are the seven distinctive features of a modern stock corporation?
7. How is a corporation formed in your state, and what are the legal requisites for incorporation?
8. What is the difference between the powers of a corporation and the powers of a partnership as to what business it engages in?
9. In case a corporation is insolvent, to what extent are subscribers liable? What remedies has a corporation on an unpaid subscription to capital stock?
10. What is meant by "the distinct legal entity" of the corporation? How does a partnership sue? How does a corporation sue?
11. Why is a corporation more permanent than a partnership?
12. How can an interest in a corporation be transferred? How can an interest in a partnership be transferred?
13. Explain the stock system.
14. What is meant by the corporate mechanism?
15. Why is the corporation form attractive to investors? Why is the corporate form used for most large business enterprises?
16. What disadvantages attach to the corporate form?

CHAPTER XLIX

THE CHARTER¹

§ 318. Definition—Synonyms

The terms, certificate of incorporation, articles of association, etc., are synonymous with the older and briefer word, charter. A charter is the formal authority from the state for the existence of a corporation. It is to the corporation what a constitution is to a civil government. It is the foundation upon which the corporate structure is built.

The charter creates the corporation and authorizes certain specified individuals to organize it and conduct its operations. Charters were formerly granted only by special legislative enactment. Now they may be secured under general laws and in many states can be secured in no other way.

Charters are granted under different statutes varying in terms and requirements according to the purposes of the corporation. The simplest charter is usually that provided for a manufacturing or mercantile business. The requirements and limitations for the charter for a bank, a railroad, a telegraph company, or a college would differ widely.

§ 319. Charter Powers—General

The grant of a charter bestows upon a corporation all the powers properly specified in the application for a charter. In addition to these specified powers—which are usually those necessary to conduct the business or enterprise to be undertaken by the corporation—the charter confers certain general

¹ See also Chapter L. For form of charter, see Chapter CVI, Form 54.

powers, whether specified or otherwise. These general powers are as follows:

1. To sue and be sued.
2. To use a seal.
3. To buy, sell, and hold property.
4. To appoint directors, officers, and agents.
5. To make by-laws.
6. To dissolve itself.
7. To do all things necessary.

These are discussed in order in the following sections:

§ 320. (1) To Sue and Be Sued

When a partnership is sued each partner must be named separately and be made a party to the action. A corporation may sue or be sued under its corporate name just as may an individual. No mention need be made of its stockholders. A summons may be served on any managing officer, on any director, or on an agent in charge of the corporate affairs.

§ 321. (2) To Use a Seal

Formerly the seal was the essential feature of the corporate signature. Now the corporate signature may be affixed by any properly authorized agent without the use of the seal, save in those cases where even an individual must use a seal, as in the conveyance of real estate or the execution of a bond.

The custody of the seal usually rests with the secretary of the corporation.

§ 322. (3) To Buy, Sell, and Hold Property

This power must be taken with some qualifications. The property must be such as pertains to the business of the corporation and such as it is permitted to hold under the laws. In some states the ownership of land by corporations is re-

stricted. Also in many states a corporation may not hold shares of stock in another corporation. A corporation must dispose of property taken for debt, if it has no charter right to hold that kind of property.

§ 323. (4) To Appoint Directors, Officers, and Agents

This power is absolutely necessary as the corporation can act only through such representatives. The stockholders at their annual meeting elect directors who have charge of and manage the corporate affairs. These directors then meet and elect a president, a treasurer, a secretary, and such other officers as may be desired. Agents may be appointed by the directors or by the officers, when authorized thereto.

§ 324. (5) To Make By-Laws

The by-laws are adopted by the stockholders. They are the working rules of the corporation and provide for the details of its operation. The by-laws are subordinate to the laws of the state and to the charter of the corporation, and their provisions must not be inconsistent with either. Under this limitation, however, the by-laws have wide scope.

§ 325. (6) To Dissolve Itself

When a corporation has failed in its object, or has become unprofitable, or has completed its intended purpose, or has disposed of its business and property, its dissolution may become desirable. Formerly the unanimous consent of all the stockholders was generally required for dissolution. Now in most states some specified majority of the stockholders by simple statutory proceedings may dissolve the corporation. In such case the assets are sold, and, after payment of any corporate debts, any remaining funds are divided pro rata among the stockholders.

§ 326. (7) To Do All Things Necessary

A corporation organized for some specified purpose has the legal right to make all contracts and do all proper things necessary to carry out that purpose. For instance, a corporation organized to build and operate a factory would without special authorization thereto have the right to buy and hold the real estate required for the erection of its plant.

§ 327. Charter Powers—Special

The special powers of a corporation are those specifically mentioned in its charter which, if not so mentioned, it would not possess. The usual purposes for which corporations are formed, with their amplifications, are included among these, but in most states the law allows many further powers that add much to the value of the corporate system.

Among these may be mentioned provisions as to the issue of preferred and other special stocks, the system of cumulative voting, the power to hold stock of other corporations, etc. Also restrictions of various kinds may be embodied in the charter, such as limitations on salaries to be paid officers, or restrictions on the power to mortgage the corporate property or to contract indebtedness generally.

§ 328. Things Ultra Vires

An individual or firm may do anything not forbidden by the law. A corporation may do only those things expressly permitted to it under the law. All other things are beyond its powers, or in legal parlance, *ultra vires*. Contracts not yet carried out by the other party, involving matters *ultra vires*, cannot be enforced by the corporation; but if these other parties to a contract have performed their part, the contract may be enforced against the corporation—that is, a corporation cannot evade its obligations by the plea of *ultra vires*. Directors and officers may make themselves personally liable

either to the corporation, to its stockholders, or to third persons, if they involve the corporation in transactions of this nature.

§ 329. Amendment of Charter

Any corporate right or privilege that might have been secured in the original charter of a corporation may, in most of the states, be secured by charter amendment, and such amendment may be made at any time, even before the organization of the corporation is completed.

As a preliminary step, amendments of the charter usually require the assent of at least two-thirds of the outstanding stock of the corporation in the manner prescribed by law—usually by vote at a regularly called meeting. The amendment so authorized is then as a rule filed in the same offices and with the same formalities as the original charter, becoming effective as soon as allowed and filed.

REVIEW QUESTIONS

1. What is the basic agreement that forms a corporation? Who are the parties to it? Give different kinds of charters.
2. What are the usual corporate powers? Give examples.
3. What are special charter powers?
4. What are things *ultra vires*? What is the effect if a corporation exceeds its powers?
5. Distinguish between acts of directors resulting in personal liability and such as are merely *ultra vires*.
6. The president of a corporation in your state went to a bank in Chicago and requested the loan on his note of \$10,000 for his personal benefit. The bank president said that he would make the loan if the directors of the borrower's company would authorize the borrower to indorse it in the name of the company. They did so, the indorsement was made, the bank discounted the note, and paid the proceeds to the maker. He failed to pay it: proper demand was made and notice

- of non-payment given. Is the indorsement binding on the company? Give reasons for your answer.
7. What is the procedure for amending a charter in your state?
 8. If a corporation to secure a debt took property that its charter did not authorize it to hold, what should it do?
 9. If suit were brought against a corporation, upon whom would the papers be served?
 10. By whom are directors elected? Who choose the executive officers?
 11. Could a railroad company operate a telegraph line?
 12. If a corporation issues stock in excess of its authorization, is the excess stock valid?

CHAPTER L

INCORPORATION¹

§ 330. Application for Incorporation

In former days a grant of a special charter would be made to specified persons, authorizing them to conduct some particular enterprise under the corporate form. Usually these charters conferred some franchise or special privilege, as the right to erect a toll bridge, establish a bank, construct a railroad, or build a dam.

The abuses arising from this method of granting charters have resulted in most states in the establishment of general laws under which corporations may be formed for any legitimate purposes, by any qualified persons upon compliance with prescribed formalities. In some few states special charters are still granted on occasion.

The form of application for a charter under these general laws is usually merely a copy of the charter desired.

It may be called a "certificate of incorporation," "articles of association," or other similar name. It sets forth the names of the applicants and the name, purposes, and other required details of the projected corporation. It usually also includes the proposed capital, the par value of the shares, the principal office of the corporation, its duration, the number and names of its first directors, the subscribers to its stock and any special provisions that are desired. The charter application when allowed becomes itself the charter.

It is executed by the incorporators, and, after its allowance by the Secretary of State, is filed in his office. It must also

¹ For incorporation forms, see Chapter CVI, Forms 53, 57.

usually be filed in the office of the clerk of the county in which the corporation is domiciled or has its home. If the proposed corporation is for proper purposes, if all fees have been paid, and the application is in due form, it is accepted and filed as a matter of course and the incorporation is accomplished.

The details of incorporation as given are the simple forms used for ordinary business corporations. The formalities and requirements for organizing a public utility corporation are more complex and more onerous.

§ 331. Incorporators

The parties applying for a charter must be competent persons of full age, and ordinarily some proportion of them must be citizens of the state in which the application for charter is filed. Minors, firms, or corporations, and generally persons not able to contract, are not competent parties, though they may usually hold stock after the corporation is formed. Persons acting in a representative capacity cannot act as such in incorporating a company. The minimum number of applicants is in most states three, though in some few states five are required. Each incorporator must ordinarily subscribe for one or more shares of stock and all must sign and acknowledge the application.

§ 332. Name of Corporation

Names like, or nearly like, those of corporations already rightfully doing business in the particular state may not be selected as the corporate name. In some states all corporate names must begin with "The" and end with "Company." In others the name must be followed by "Limited" or "Incorporated." In many states, firms may become incorporated under the partnership name without change or addition of any kind.

§ 333. Purposes

The purposes for which a corporation is to be formed must be set forth in the application. They must be permitted by the laws of the particular state. Ordinary business corporations are allowed much latitude in stating their purposes and are not usually confined to one business or line of activity. (See Chapter LI.)

§ 334. Capitalization

The capital stock of the proposed corporation must be specified in the application and may be changed thereafter only by amendment of the charter. (See § 349.)

§ 335. Shares

In most states of the Union the par value of shares of stock may be fixed by the incorporators at discretion. In some few states there are general restrictions, as in New York where the par value of the share must be not less than \$5 nor more than \$100. In New York and some other states shares may also be issued without any par value.

One hundred dollars is the most convenient and most generally adopted par value for shares of stock. (See § 349.)

§ 336. Location

A corporation must have its principal office in the state in which it is incorporated. The location must usually be specified in the application for its charter.

In the state of its incorporation the company is a "domestic" corporation. Elsewhere it is a "foreign" corporation. In its own state it has certain legal rights as an incident of incorporation. In other states it has no such rights except as a matter of courtesy or as may be granted there by legislation.

§ 337. Duration

In some states the duration of corporations is limited to some fixed maximum as twenty, thirty, or fifty years. In most states, however, while a corporation may be limited to any term specified by its charter, it is permissible to make its duration perpetual.

§ 338. Number of Directors

The number of directors of the corporation must in most states be specified in the charter application. The minimum allowed by law is usually three. (See § 371.) ✓

§ 339. Classification of Stock

Under the laws of most of the states, stock may be classified in various ways. The customary classification is into common and preferred stock. Another frequent classification is that of voting and non-voting stock. Sometimes stock is classified so that each class of stock elects one or more directors. (See § 356.)

§ 340. Cumulative Voting

The cumulative system (see § 367) is employed only in the election of directors.

§ 341. Execution of Certificate

The charter application, having been duly made out in conformity with the laws of the state of incorporation, is signed, usually in duplicate, by the incorporators. It is then acknowledged before some officer authorized to take acknowledgments to deeds, and is ready for filing.

§ 342. Filing and Recording

Under the usual procedure, the duly executed application, accompanied by the proper fees, is sent to the office of the

Secretary of State, while another copy is filed with the county clerk of the county in which the proposed corporation is to have its principal office. Each state has its own minor variations in procedure, which will be found in its statute law.

In New York the state fees must be sent to the State Treasurer. When these fees are received, the Treasurer certifies that fact to the Secretary of State, who will not file the charter until this certification is received. In New Jersey the application is filed with the county clerk first, and a copy certified by him is then filed with the Secretary of State. In some states, the application must receive the approval of the judge of a specified court before it will be filed.

If the application for charter is in due shape and all fees are paid, it is accepted and filed as a matter of course. The application becomes, when filed, the charter of the corporation. The existence of the corporation dates from such filing.

As the procedure for incorporation varies in each state, it is best to study the statutes and the forms prescribed in the reader's own state. In most states these statutes are published in a pamphlet and the blank forms are usually sent out on application to the Secretary of State.

§ 343. De Facto Corporation

Sometimes an attempted incorporation may fail and then a question may arise as to the liability of the members. The elements of a *de facto* corporation are:

1. A general law under which the corporation could be legally formed.
2. A bona fide attempt to comply with the provisions of that law.
3. The exercise of corporate powers.

When these elements exist the liability of members will be the same as if the incorporation had not been defective.

Otherwise the members will be liable as partners. In some states the doctrine of *de facto* corporations is not recognized. ✓

§ 344. Contracts Prior to Incorporation

When contracts are entered into in expectation of the formation of a corporation and on its behalf, the status of the trustees or parties in charge, if the corporation fails of incorporation, depends upon the nature and condition of the contract. A subscription to stock would be terminated, and if payment had been made thereon to a trustee, any unexpended amount might be reclaimed; and if the trustee were to blame for the failure to incorporate, he might be responsible for the portion expended as well.

Other contracts, if clearly made on behalf of the proposed corporation, would in most cases be terminated. If not clearly made for the new corporation, the parties contracting for the corporation might be held to specific performance or for damages for non-performance. (See § 146.) ✓

If the incorporation proceeds without misadventure, such contracts would be ratified and adopted by the new corporation. The promoters usually control the first meetings and look out for this. If the company without formal adoption took advantage of a contract, or used services contracted for by promoters, it would be liable for a fair compensation. ✓

REVIEW QUESTIONS

1. What is the usual procedure in incorporating a company in your state? Prepare the required application for charter of a manufacturing corporation.
2. May persons acting in a representative capacity be incorporated? Can a corporation be a party to an incorporation?
3. Where must the principal office of a corporation be? How is it fixed?
4. How may stock be classified?

5. How is the application for a charter executed? Where is it filed in your state?
6. What is a *de facto* corporation?
7. How many incorporators are required in your state to organize a business or a manufacturing corporation?
8. Why are shares without par value desired?
9. The promoters of a company before its incorporation employ an accountant to prepare the prospectus, which the company makes use of. May he recover for his services against the company?
10. When persons associate themselves together as a corporation and the corporation is defective or incomplete, what is their position as against the creditors of the corporation?
11. What is the distinction between foreign and domestic corporations?

CHAPTER LI

BY-LAWS¹

§ 345. Definition

By-laws are the more permanent rules of corporate action as distinguished from motions and resolutions, which usually apply only to particular occasions and special matters.

A corporation is controlled: (1) by the corporation laws of the state in which it is domiciled, (2) by the provisions of its charter, and (3) by its by-laws, these three ranking in the order given as to authority. Hence any by-law that does not accord with the statutes of the state and also with the provisions of the charter of the particular corporation is void.

By-laws are enacted by the stockholders and by them alone, unless, by statute, by charter provision, or by action of the stockholders themselves, such power has been delegated entirely or in part to the directors of the corporation.

By-laws limiting the power of officers to make contracts will not be effective against one who contracts with the corporation without knowledge of those by-laws. The officers, though, would make themselves liable to the corporation for any damage resulting from their breach of duty.

§ 346. Adoption

A corporation is not compelled to adopt by-laws. Its operation without them would, however, be practically impossible.

A reasonably complete set of by-laws is usually adopted by the stockholders at their first meeting, and these by-laws

¹ For form of by-laws, see Chapter CVI, Form 55.

are added to, amended, or repealed from time to time thereafter as may be necessary.

By-laws should be carefully drawn, properly adopted, and accurately recorded in the minute book of the corporation. They should provide fully for all the important details of corporate procedure, such as the issuance and transfer of stock, the meetings of the stockholders and directors, the election of directors and officers, the respective duties and responsibilities devolving upon these, and the care and management of the corporate property and finance. They should also include the more important provisions of the charter and of the statute law as far as applicable. This is done in order to provide a convenient and accessible memorandum of these provisions. Without this they might be overlooked or forgotten.

§ 347. Amendment

The by-laws usually prescribe the method of their own repeal or amendment. Unless otherwise provided by statute, charter, or by proper provision in the by-laws themselves, these by-laws may always be repealed or amended, either in whole or in part, by a majority vote of a quorum of stockholders at any regular meeting, or at any special meeting duly called for that purpose. The directors have no power to repeal or amend by-laws under any circumstances unless such power is expressly given them by the laws of the state of incorporation, by the charter of the corporation, or by its by-laws.

§ 348. Enforcement

Direct penalties for the violation or non-observance of by-laws are sometimes provided. These usually take the form of fines. Such penalties are, as a rule, unsatisfactory and very difficult of enforcement. The smaller infractions are usually passed over, or recurrence is prevented by the substitution of

more reliable officials at the next election. The more serious violations bring their own penalties in the legal liabilities and entanglements that necessarily follow. Corporate action taken in disregard of by-law provisions is, for that reason, not only illegal but may at times involve the directors and officers concerned in personal liabilities.

REVIEW QUESTIONS

1. What are by-laws? How do by-laws rank as compared with other corporate regulations? Are by-laws binding on people who do business with corporations? Give reasons for answer.
2. Who adopt or amend by-laws in your state? If a corporation adopted a set of by-laws which provided that any amendment required a two-thirds vote, would a subsequent amendment by a majority be good? Give reason for answer.
3. How are by-laws enforced?

CHAPTER LII

STOCK¹

§ 349. Capital Stock

The capitalization or capital stock of a corporation is the amount of stock as fixed by its charter which the corporation is empowered to issue. This amount can be changed only by amendment of the charter. This capital stock is regarded as divided into equal shares, termed "shares of stock." When by purchase or otherwise a person acquires an interest in the capital stock, he becomes a stockholder in the corporation, and his interest is expressed in these shares of stock. ✓

The par or face value of shares of stock is fixed by the charter of the particular corporation, and, unless expressly limited by statute, may be placed at any amount desired by the incorporators. This par value can be changed only by charter amendment. One hundred dollars is the most common par value of shares. The number of shares owned by any individual gives an accurate measure of his interest in the corporation. For instance, if a man owns ten shares of the par value of \$100 each in a corporation with a capitalization of \$10,000, all of which is issued, he owns a total stock interest of one-tenth of the entire outstanding capital stock, and therefore has an undivided one-tenth interest in the entire corporate property and business. ✓

The par value and the actual value of a share of stock may be very different. A hundred-dollar share of stock in a prosperous corporation will frequently be worth several times

¹ For form of subscription list, stock certificate, and assignment of stock certificate, see Chapter CVI, Forms 53, 57.

that amount, while in an unsuccessful corporation it may be worth little or nothing. In either case the par value remains the same.

§ 350. Stock Certificates

Stock certificates are issued as a convenient evidence of the stockholders' interests in a corporation, and every stockholder whose stock is paid for has a right to such a certificate. These certificates state the number of shares owned, their par value, and usually any other material facts affecting the stock in question, as, for instance, that it is full-paid, or that it is preferred stock. These certificates of stock are signed by the president and the secretary, or the president and the treasurer of the corporation and are sealed with the corporate seal. When properly issued, they are conclusive evidence of the ownership of the stock represented by them.

The stock certificate, as already stated, is merely the evidence of ownership of stock and is not the stock itself. The stock of a corporation usually exists before stock certificates are issued at all, and may be bought and sold by proper entries on the corporate books.

Old stockholders have a right to purchase new stock pro rata before it may be offered to outside investors. However, a price may be fixed, not less than par, and if the stockholders are given an opportunity to take stock at that price in proportion to their holdings, and the offer is not accepted, the right is lost, and the stock may be sold to others, at the advanced price. In some cases subscription scrip that can be sold to others is issued to stockholders in proportion to their holdings.

Each share of stock usually entitles the owner of record to one vote in all proceedings of the stockholders, whether assembled in annual or special meeting. In most states, by proper charter provision the voting power of stock may be restricted, or stock may be issued without voting power. Pre-

ferred stock is very frequently so issued. Unless expressly denied or restricted by proper provision, all stock has the usual voting power and this right may be exercised by the owner of record in person, or, usually, by proxy. N13 ✓

§ 351. Capital Stock vs. Capital

The "capital stock" or capitalization of a corporation should be very clearly distinguished from its "capital."

The capital stock is the total amount of stock the corporation is authorized by its charter to issue. This amount is fixed in the first place by the parties organizing the corporation—who are termed the incorporators—and, once accepted and authorized by the state, may be changed only by formal amendment of the charter.

The capital, on the other hand, is the net actual amount of property owned by the corporation, that is, the excess of its assets over its liabilities. It is obvious that the value of these assets is liable to change with the fluctuations of the business or from other causes. The capital stock of the corporation and its capital, therefore, even though equal at first, may and frequently do differ greatly in amount. For instance, the capital stock of the Chemical Bank of New York City is \$3,000,000 while its capital is over \$7,500,000.

§ 352. Unissued and Issued Stock

Unissued stock is not an asset of the company but is merely an unexercised right to issue stock when and as subscriptions for it are accepted.

It usually represents excess capitalization. For instance, a corporation organized to take over property worth \$20,000 might perhaps be capitalized at \$25,000 with the idea of selling the excess stock at some future time to raise working capital.

Issued and outstanding stock is stock which has been issued for cash, property, labor, services, or other values, or which

has been subscribed for and the subscriptions accepted by the company. Such stock is issued stock and the subscribers or purchasers are stockholders of the company, even though the actual certificates by which this stock is represented may not have been issued.

Section 55 of the Stock Corporation Law in New York State provides that:

No corporation shall issue either stock or bonds except for money, labor done, or property actually received for the use and lawful purposes of such corporation.

§ 353. Full-Paid Stock

In most of the states, payment for stock may be made in anything of value. If the corporation has received the full face value for issued stock in cash or in any other form of payment permitted by law, such stock is termed full-paid, and its certificates should be marked "Full-Paid" in order to indicate this fact. After stock has once been issued for full value, it may be sold at less than par without involving the purchaser in any liability for the difference.

If the corporation has not received the full face value for issued stock, the stock is but partly paid, and the immediate purchaser of, or subscriber to, such stock may usually be held liable for the amount necessary to render it full-paid. This liability may be enforced either by the corporation, or, in event of its insolvency, by any creditor of the corporation.

Stock certificates issued as full-paid when they are not full-paid will not protect stockholders, who knowingly subscribe for or buy such stock, from liability to creditors in case of insolvency. But an innocent purchaser for value who buys in the open market is not liable either to the corporation or its creditors.

Watered stock is stock for which the corporation has not

received full payment in cash, services, or property. Watered stock is usually created by the issuance of stock in payment for property or services which have been overvalued; sometimes also it is created by the issue of stock insufficiently supported by the corporate property, as for instance, in cases of unwarranted stock dividends.

§ 354. No Par Value Stock

In some states, as in New York, stock may be issued having no par value. Its value is the market rate. Here the stock is full-paid when it is sold at whatever can be obtained for it in the market, and there is no further liability.

§ 355. Common Stock

Common stock is the general or ordinary stock of a corporation, with neither special privileges nor restrictions. If any portion of the stock is given special privileges or restrictions, that portion is thereby removed from the class of common stock and the remainder constitutes common stock. Any statements made concerning stock, when the class is not specified, are usually understood to apply to the common stock.

Non-participating stock is stock sharing in all dividends but giving the owner no voting right.

§ 356. Preferred Stock

Preferred stock, as the term is usually employed, is that which has some preference as to dividends or assets over other stock of the same corporation. This preference is usually secured to it by special provisions in the certificate of incorporation, though in some states this may be attained by by-law provision.

Preferred stock may be either cumulative or non-cumulative as to dividends. Non-cumulative preferred stock must

receive its preferred dividend for the current year before any dividend is paid the common stock, but if in any year its dividend fails or is only partly paid it loses the unpaid amount. If the dividends on cumulative preferred stock are not paid in any year, or years, or are but partially paid, the amounts unpaid go over, or cumulate, and must be satisfied before the common stock receives anything. They remain a charge against the profits of the company until paid in full.

It is usually provided that preferred dividends shall be paid in full before the common stock receives any dividend. Unless otherwise expressly provided, after the preferred dividends are paid in any year, the common stock receives an equal dividend if the profits are sufficient, and both kinds of stock then share alike in any further dividends declared in that year. It is sometimes provided that, after the preference dividends are paid, the preferred stock shall share equally in all further profits with the common stock. Preferred stock is sometimes limited to its preferred dividend and does not participate at all in any further dividends.

It is often provided that in case of dissolution preferred stock shall be satisfied out of any assets of the company before the common stock receives anything. If this provision is not made, either by statute or by charter, the preferred stock in any liquidation of the corporation will first receive any dividends then due, but thereafter will fare the same as common stock.

Preferred dividends may be paid only from profits. If there are no profits, or if the profits are needed for purposes of the business, the dividends to preferred stock are either passed entirely or cumulated until profits are made. Unlike a bond, preferred stock is not a debt or liability of the corporation. Its owners are stockholders and not creditors, and failure of dividends gives no cause of action against the company or its directors.

§ 357. Treasury Stock

Treasury stock, in the better use of the term, is stock which has been issued for value and has by gift or purchase come back into the possession of the company. It differs from unissued stock in the fact that it may be sold below par without involving the purchaser in any liability for the unpaid balance. So long as the treasury stock is held by the company, it can neither vote nor draw dividends.

§ 358. Lost Certificates

A stockholder's rights are not affected by the loss or destruction of his stock certificate. Its absence may involve much inconvenience, more particularly if the stock is to be sold. The directors may, in their discretion, provide for the issue of a duplicate subject to the by-laws, which usually provide that a bond must be required.

If a certificate is lost the secretary of the company should be notified promptly, as otherwise the stock certificate might be presented under circumstances which would justify him in making any desired transfer. After notification he would make such a transfer only by direction of the board.

§ 359. How Transferred

Stock certificates usually have a blank form of transfer printed on the back. If this is simply signed, the stock may be transferred to anyone, and he will have a right to obtain a certificate made out to himself by surrendering the indorsed certificate to the corporation. If the name of the person to whom it is transferred is inserted, only that person has a right to the stock and to the new certificate.

A Uniform Stock Transfer Act is now in force in fourteen states and territories and governs the method of transferring stock and the rights of transferee and transferor. The states which have accepted this act are:

Connecticut	New York
Illinois	Ohio
Louisiana	Pennsylvania
Maryland	Rhode Island
Massachusetts	Tennessee
Michigan	Wisconsin
New Jersey	

and the territory of Alaska

REVIEW QUESTIONS

1. What determines the amount of stock a corporation may issue? What is the par value of stock? What is the actual value? What fixes the actual value?
2. What is a stock certificate? If a "close" corporation, that is, a corporation with a small harmonious group of stockholders, decided not to issue certificates, what would be the effect?
3. When the capital of a corporation is increased, what persons have a prior right to subscribe for the new stock, and in what proportions? May such right be made negotiable, and if so, how?
4. What is the difference between the "capital stock" and the "capital" of a corporation?
5. For what kinds of property may a corporation under the laws of your state issue its capital stock in payment? Explain fully. How are directors liable if they allow subscribers to stock to pay some instalments with notes?
6. Stock certificates are issued to the original subscribers bearing the printed words "fully paid and non-assessable," when in fact they were only partly paid for; later the stock is sold and assigned to a purchaser without notice of the fact that it is not paid for in full. What remedy has a creditor or the corporation against the original subscriber and against the transferee?
7. What is the object of "no par value stock"?
8. What is common stock? Define non-participating stock. What is preferred stock? Is preferred stock a debt of the corpora-

- tion? Why do investors object to non-cumulative preferred stock?
9. Have preferred shareholders a right to recover when dividend is earned but not declared? In event of insolvency can a holder of preferred stock claim payment for par value before creditors?
 10. Which is the safer investment, preferred or common stock? Why?
 11. Why is common stock sometimes more valuable than preferred stock?
 12. What is treasury stock? How does it differ from unissued stock?
 13. If a stock certificate is lost, what should be done?
 14. How is stock transferred?

CHAPTER LIII

STOCKHOLDERS AND THEIR MEETINGS¹

§ 360. Incorporators

Incorporators are the persons who sign the certificate of incorporation. They must usually be subscribers for stock and later become stockholders. It is the incorporators who draw up the application and make the charter provisions. After the charter has been accepted, those who have subscribed for stock become stockholders and these elect the directors. (See § 331.)

§ 361. What Constitutes a Stockholder

The stockholders of a corporation are those who actually hold its stock, or who have subscribed for its stock and have had their subscriptions duly accepted by the corporation. A "stockholder of record" is one whose ownership of stock is duly recorded upon the books of the corporation.

When outstanding stock is purchased, the transfer must be entered on the books of the company before the purchaser becomes a stockholder of record, entitled to vote, to share in dividends, and to receive a certificate of stock in his own name. Until that time he is the equitable owner of the stock, but is not known or recognized in any way as a stockholder.

§ 362. Rights of Stockholders

The individual stockholder has but little part in the active management of the corporation.

The rights of holders of common stock may be stated as follows:

¹ For form of minutes of stockholders' meetings, see Chapter CVII, Form 59.

1. To be notified of, and to participate in, all stockholders' meetings, in person or by proxy, and to cast one vote for each share of stock held. ①
2. To vote in the election of directors at the annual meeting each year, and upon any amendment of the by-laws or other general matters brought before the meeting. ②
3. To share, in proportion to the amount of stock owned, in all dividends declared on the common stock. ③
4. In event of the dissolution of the corporation, to share in like proportion in any assets remaining after all the corporate debts and obligations have been paid. ④
5. To inspect the corporate books and accounts. ⑤

It should be said, however, that this last right has been so restricted in practice as to amount to little more than the right to inspect the list of holders of stock as shown by the stock ledger. ←

The remedy of a stockholder denied access to the books would be by writ of mandamus. Theoretically, the holder of a single share may enforce this right of inspection, but practically the courts would hesitate to act where the interest was small. To inspect the books of a large corporation is a serious interference with business and the courts would not allow inspection except for weighty reasons.

Holders of preferred stock have the same rights, except as these may have been extended or restricted by the conditions under which the stock was issued. //✓

§ 363. Powers of Stockholders

The powers of the stockholders may be summarized as follows:

1. Adoption or amendment of by-laws. ✓
2. Election of directors. ✓
3. Amendment of the charter. (See § 329.) ✓
4. Dissolution of the company. ✓
5. Sale of the entire assets of the company. ✓
6. The exercise of any specially conferred charter powers. ✓

The board of directors is the sole managing and controlling authority of the corporation. The stockholders make the by-laws by which the directors are controlled, and elect the directors by whom the corporate affairs are conducted, but beyond this they do not interfere in any way with the transaction of the corporate business or the management of the corporate property. All this rests with the board. Nor can the stockholders act directly for the corporation. A contract signed by every stockholder would not be the contract of the corporation and would not bind the corporation, unless also signed by its proper officers or otherwise formally accepted by its directors. ✓

§ 364. Liabilities of Stockholders

A stockholder is liable to the company or to its creditors for any instalments remaining unpaid upon stock subscribed for by him. He may also be liable to creditors on any stock held by him which is not full-paid. Should dividends be paid from capital instead of from profits, stockholders are liable to corporate creditors for any amount so received by them. ✓

Also stockholders of national banks and of most state banks and trust companies are held liable in case of the insolvency of their institutions, for an amount equal to their original subscriptions. ✓

As a rule, however, in the ordinary business corporation the holder of full-paid stock is in no danger of losing anything more through corporate failure or insolvency than the amount he has actually invested in his stock. ✓

§ 365. Stockholders' Meetings

The annual meeting is usually the only regular meeting of stockholders. It must be held in the state in which the company is incorporated, unless the laws of such state expressly provide otherwise, and it is usually required that this annual meeting be held in the principal office of the corporation.

At the annual meeting the directors for the ensuing year are elected, the reports of the officers are presented, any amendments to the by-laws may be submitted and acted upon, and any affairs of the company requiring the action or attention of the stockholders may be presented for consideration. If any sweeping change in the business or policy of the company is desirable, it is usually authorized by action of the stockholders at this meeting. ✓

If action by the stockholders is necessary in the interim between the annual meetings, a special meeting may be called by resolution of the directors, or in any other way that the by-laws may prescribe or permit. This call is followed by a notice to the stockholders, giving the necessary details of the meeting which is to be held. In the case of a special meeting, both call and notice should state the purpose of the meeting.

§ 366. Quorum

The quorum at stockholders' meetings should be prescribed in the by-laws. The usual provision requires the presence of a majority of the outstanding stock in order to transact business. When a quorum is present, a majority of this quorum has power to decide any question that is brought before the meeting, unless it should be a special matter requiring a two-thirds or other larger vote to pass. Where it is not otherwise prescribed the common law rule is that those in attendance will constitute a quorum. ✓ 3

§ 367. Voting

Only stockholders of record are entitled to vote at annual and special meetings of the stockholders. Each stockholder of record is entitled to one vote for each share of stock held in his name. That is, if five directors are to be elected, the holder of one share may cast one vote for each of these. The holder of ten shares may cast ten for each and so on.

Under the cumulative system of voting, which is designed to secure for the minority a representation on the board, the holder of one share still casts one vote for each director to be elected, but he may cast all five votes—if five directors are to be elected—for any one candidate or may distribute them among the five as he sees fit.

Voting at elections of directors is usually by ballot.

§ 368. Voting Trusts

It is frequently necessary or important that the agreed management of a corporation be preserved consecutively for a term of years. This may be for the protection of minority or special interests or other valid reasons. In such a case a voting trust—sometimes called a “stock pool”—is the usual means by which this is secured.

This arrangement provides that sufficient stock to insure the desired end be placed in the hands of trustees for a certain period of time with definite instructions as to the way in which this stock shall be voted. A voting trust applies only to the stock of a single corporation, and must be distinguished from the attempts which were made to combine a number of corporations under one trust management. This latter system was used to form combinations in restraint of trade, and on that account has been prohibited.

New York and Maryland are the only states in the Union in which the voting trust is expressly sanctioned by statute, although in New Jersey, Massachusetts, California, Alabama,

and some other states the courts have rendered decisions favoring arrangements of this kind and intimating that where the trust was for a proper purpose and for a reasonable time, and did not contemplate any advantage from which other stockholders of the same corporation were excluded, it was not contrary to any principle of law or equity.

Any voting trust formed to promote a monopoly, or to dominate the corporation in the interests of another corporation, or to deprive other stockholders of their rightful powers, would undoubtedly be held illegal.

§ 369. Proxies

Any stockholder entitled to vote at a stockholders' meeting may usually give a proxy (a power of attorney) empowering some other party to attend stockholders' meetings as his representative and vote his stock in his stead. (See Chapter CII, Forms 31, 33.) In New York a proxy is good for any definite period not exceeding eleven months. In Pennsylvania a proxy is not good after two months. A proxy-holder need not be a shareholder. The inspectors of election have power to determine the genuineness of any proxy.

REVIEW QUESTIONS

1. What constitutes a man a stockholder? What rights have stockholders?
2. If a stockholder were denied access to the books what could he do? Could the holder of a single share enforce inspection of the books?
3. What is the managing authority of a corporation? What power has a stockholder? What power have the stockholders?
4. What right, if any, in your state, has a stockholder to demand a financial statement? Are stockholders in your state liable for wages of employees if the corporation becomes insolvent?

5. If a stockholder owned more than one-half of the stock, could he bind the corporation by a contract?
6. What are the liabilities of a stockholder? What is the liability of a stockholder in a national bank?
7. Where should the annual stockholders' meeting be held? What is the usual rule as to quorum?
8. Explain the operation and advantage of cumulative voting?
9. What is a voting trust? What can voting trusts do legally?
10. Must a proxy-holder be a stockholder?
11. When does a proxy which does not specify period, become in your state invalid?
12. Who has authority to determine the genuineness of proxies?

CHAPTER LIV

DIRECTORS AND OFFICERS¹

§ 370. Status and Functions of Directors

The board of directors, elected by the stockholders, has the entire management of the corporate affairs.

The directors of a corporation are held to be its agents, and, in a measure, trustees for the stockholders. They are responsible for its proper management.

§ 371. Number and Authority

In most of the states there must be at least three directors. The maximum number is not usually designated. For all ordinary corporations a small board is most convenient, and as a rule most effective. ✓

When the board is unwieldy or difficult to assemble, the actual administration of the corporate affairs is usually delegated to an executive committee composed of from three to five members of the board.

The board elects the corporate officers, appoints such other agents as may be necessary, and has entire charge of the property, interests, business, and transactions of the company. The board of directors is the embodied corporate authority.

The directors can only act collectively and in a regular meeting or in a duly assembled special meeting. A single director, unless authorized thereto by resolution of the board, or specially empowered in some other way, has no standing in corporate matters above that of any other stockholder.

¹For forms of calls, notices, minutes, etc., of directors' meetings, see Chapter CVII, Forms 58, 60, 62, 65.

§ 372. Liabilities

Directors are liable in the same manner as trustees for any wrongdoing; also for any neglect that results in loss to the corporation. For instance, they are liable if they issue stock as full-paid which is not full-paid, or pay dividends out of the capital of the company when there are no profits, or otherwise abuse their power.

Contracts between directors and the corporation are generally held by the courts to be voidable but are presumptively valid. They may be voided by the corporation if any element of unfairness is involved. Contracts of this kind will always however, be more carefully scrutinized than ordinary contracts, and their validity may rest on the circumstances under which the contract was made.

In a case of a threatened breach of trust by the directors or officers of a corporation, an injunction may be asked by a stockholder or stockholders to prevent this and the stockholder's rights in this respect are not affected by the amount of his holdings. The same action may be taken by a director to remedy the breaches of his codirectors.

Creditors are not usually given any rights to interfere in the management of a corporation until they have obtained judgment and had an execution returned unsatisfied.

"The creditors of a corporation have no right, either at law or equity, merely because they are creditors, to interfere in the management, or to go into a court of equity to restrain it from making contracts or disposing of property, unless there is fraud or breach of trust to give the court of equity jurisdiction."²

A corporation where it is being pressed for payment of debts may make an assignment for the benefit of creditors.

² Wither v. Lynde, 49 Ga. 290; 19 Am. Rep. 645. Thomas v. Sweet, 37 Kan. 183. Stewart v. Lehigh Valley R. R. Co., 38 N. J. L. 55. Tompkins, Summary of Law of Private Corporations.

§ 373. Qualifications

Most of the states require that directors shall be stockholders of the company; also, usually, that one member of the board shall be a resident of the state of incorporation. In some of the states the stockholding requirement may be waived by provision in the charter or by-laws.

§ 374. Vacancies and Removal of Directors

A board of directors may continue to act though there be vacancies, provided sufficient members remain and are present to make up a quorum. Vacancies should, however, be filled as they occur, and authority to do this should be conferred on the board by the by-laws. The board does not possess this power unless it is specifically given.

Directors cannot be removed, either by the other directors or by the stockholders, unless such power of removal is expressly given by the certificate of incorporation, the by-laws, or the statutes of the state.

§ 375. Regular Meetings

The times and places for regular meetings of the directors are fixed by the by-laws. Monthly meetings are generally prescribed. In a small company one regular meeting a year may suffice. Should action of the board prove necessary in the interim, special meetings may be readily called, or be held by consent whenever the occasion arises.

§ 376. Special Meetings

The by-laws should clearly prescribe the method by which special meetings of the board are to be called. Usually it is provided that the president or two or more of the directors may call such meetings. The call must be followed by a notice to each director. Calls for special meetings must specify the

time, the place, and the business to be transacted, these details must be repeated in the notice, and no other business than that so specified may be transacted at that meeting.

§ 377. Quorum

A majority of the whole board is usually necessary to constitute a quorum. A majority of the prescribed quorum decides the action of the board. Unless regulated by statute, the charter or by-laws may prescribe the number necessary to form a quorum.

Directors cannot give proxies authorizing others to represent them and vote for them at directors' meetings. The directors occupy a position of trust and they cannot as individuals delegate to others the trust vested in them. *no proxies*

§ 378. Officers

~~The board can act only through the officers and agents which it appoints.~~ Usually the election of officers is held at the first board meeting in each year after the election of the new directors. In this way the new directors may elect their own officers and thereby secure an official staff in harmony with their views and policy. The usual executive officers of a corporation are a president, vice-president, treasurer, and secretary. Two offices may be held by the same person if the duties are not incompatible and if the by-laws permit.

The president and vice-president, as presiding officers of the board, should be chosen from its membership.

If a chairman of the board exists, that official presides at all meetings of the board. In this case the general rule that the president must be a member of the board is not so imperative. If, however, the president is to be the chief executive of the company, he must almost of necessity be present at meetings of the directors, participate in their discussions and deliberations, and should therefore be a member of the

board. Save as to these, the officers need not be selected from the board.

The officers of the company carry out the instructions of the board, and have no independent powers or authority outside the routine duties assigned them by the by-laws or by the statutes. *|| ✓*

§ 379. Salaries

Unless it is specified that officers are to receive salaries, they are not, as a rule, entitled to charge for their official services. Neither is it ordinarily legal for the directors to vote compensation for such official services after they are performed. To avoid misunderstanding, however, the conditions, whatever they may be, should be clearly stated in the by-laws—that the officers of the corporation shall receive no salaries, or that the officers shall receive only such compensation for their services as the board may designate at the time of their appointment, or that the officers shall receive the salaries specified in the by-laws. The whole matter is one to be adjusted from a business standpoint, and much trouble is likely to be saved by a definite arrangement. *grain*

If, however, an officer is neither stockholder nor director of the company and stands in no relation which would make it to his interest to serve without compensation, there will be a prima facie obligation to pay him. *||*

Officers who are also directors cannot vote salaries to themselves even though they are also holders of a majority of the stock. But an officer who is also a stockholder and a director may recover for services rendered outside his official duties if such services are authorized by the directors. *||*

§ 380. Vacancies and Removal of Officers

The directors have power to fill, for the unexpired term, any vacancies that may occur among the officials of the cor-

poration. Officers cannot be removed at the pleasure of the board, ~~unless the by-laws, charter, or statute law give the directors this power.~~

§ 381. Dividends

The matter of declaring dividends, the time when they are to be declared, and the amount rest in the discretion of the board of directors. When a dividend is once publicly declared, it cannot be rescinded. If the resolution is adopted but is not known, the declaration of the dividend can be nullified.

Dividends may be legally declared only from surplus or net profits. If paid from the capital or obtained in any way that will impair the capital of the company, the directors render themselves personally liable, and should the corporation become insolvent the amounts so paid may be recovered from the directors or stockholders for the benefit of creditors. The general rule in this country is that before dividends can be properly declared, any impairment of capital through business losses in previous years or through depreciation must be first made good. In other words, dividends must be declared out of "surplus."

Dividends are paid only to stockholders of record and must be equal as between holders of the same class of stock. Particular stockholders may not be favored either in time or in amount of payment.

§ 382. Bank Deposits

The moneys of a corporation should be deposited, in the name of the corporation, in some bank or trust company designated by the board of directors. Moneys so deposited should be drawn out only by checks, signed by the treasurer and countersigned by the president or by such other officers as may be properly authorized thereto.

§ 383. Execution of Contracts

Corporate contracts must be authorized by resolution of the ~~board of directors~~. In practice, however, this rule is somewhat relaxed. The officers customarily make contracts in minor matters incident to their official duties without express authorization. If the officers have been habitually permitted to contract for the corporation without specific authorization, such contracts, unless obviously in excess of the proper official powers, are binding on the corporation.

§ 384. Corporate Seal

The corporate seal is either provided for in the by-laws and is therefore adopted with the by-laws, or is adopted by resolution of the board of directors. It should bear the name of the company, the state of incorporation, and the year in which the incorporation was effected.

REVIEW QUESTIONS

1. Who is responsible for the management of a corporation?
2. What is the object of having an executive committee? What authority has an executive committee?
3. What are the general powers of a board of directors?
4. Who is responsible if dividends are paid illegally?
5. May a person accept a present of shares in a company in consideration of his joining the board of directors?
6. State generally who is entitled to file a bill to compel the officers and directors of a corporation to account for any breach of duty or breach of trust.
7. A company's earnings for a year would enable it to declare a dividend of 10 per cent. The directors refuse to declare a dividend, deeming it better to use the profits in extending the business. Have shareholders who want the dividend any remedy at law?
8. Is a director or a stockholder chargeable with knowledge of a corporation's business merely because he is a director or a stockholder?

9. Are the executive officers of a corporation entitled to salaries?
How can officers secure salaries?
10. Can directors give proxies for directors' meetings?
11. Has the treasurer of a corporation, as such officer, any authority to bind the corporation by a contract for work, labor and services? Explain.
12. From what source should dividends be paid? May a dividend be legally declared if former losses have impaired the capital of the company?

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A Working Manual of Every-day Law

By

THOMAS CONYNGTON

Of the New York Bar; Author of "Corporate Organization
and Management," "The Modern Corporation," etc.

VOLUME II



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BUSINESS LAW

PART X

REAL AND PERSONAL PROPERTY

CHAPTER LV

PROPERTY RIGHTS

§ 385. Origin of Property

The natural right to property arises either from occupancy or labor. A man settled on unclaimed land, cultivated it, and built a house on it, and it became his. Men caught wild animals and tamed them, and by so doing became their owners. After the first taking, the right to the particular property could be acquired by another person only by transfer, that is, by gift or sale, from the man who originally owned it.

The other origin of the right to property is in labor. A man caught fish, killed game, made a war club, or raised crops; and the law recognized his natural right to what he had acquired by his own labor.

Other less defensible means of acquiring property have prevailed and the law has recognized the titles despite their wrongful origin. Much real property has at some time been taken from its original possessors by conquest. Title so acquired has passed from hand to hand, has been sold, or has been inherited, and now the law recognizes as good the title that had its origin in violence and robbery. Other property rights originated in fraud and deceit, but human law cannot well dispossess the present occupants who, in most cases, have acquired title in good faith.

§ 386. Rights to Personal Property

Personal property is of two kinds, tangible (that which may be touched), such as goods, chattels, commodities, etc.; and intangible, for example, a copyright. Intangible personal

property may be either certain rights in real estate, such as a lease for a term of years, or a license to cross land, or rights of action against other people, that is, rights to money or property evidenced by bills, notes, stocks, bonds, etc. All rights of action are technically known as "choses in action." The rights to trade-marks, patents, etc., are other examples of intangible personal property. All of these may be owned, sold, and transferred.

§ 387. Rights Classified

Property rights may be either present rights based on actual possession of the property at the time, or they may be future rights. If future rights are certain, they are known as vested rights; if they are dependent on a condition, they are called contingent rights.

Vested Rights. Where a person has an absolute right at the present time to property which he will receive at some time in the future, it is known as a vested right. For instance, a man may die and leave his house and lot to his wife during her life, and to their son upon her death. The son will not be the absolute owner of the property until his mother's death; but his mother will surely die some day, and either he, or if he be dead, his heirs, are certain of obtaining the possession of the property then. So he is regarded as having an absolute or vested right to the property.

Contingent Rights. But if it were not certain who would take the property until the time for taking it arrived; or if the person is known but his taking the property depends on some future event, so that his right to the property is dependent on a condition, or several conditions, as the case may be, then the right is known in law as contingent. For instance, a man might leave his property to his wife for life and to those of his children who might be living at her death. It would be impossible to say just which children would get

the property until her death took place. The interest of each child would be contingent.

REVIEW QUESTIONS

1. Why does one man have a better right to a particular piece of land than does another?
2. Why does one man have a better right to the Hope diamond than does another?
3. If a man dies, who then owns his property? Why?
4. What is the difference between tangible and intangible personal property? What does intangible mean?
5. What is the difference between present and future rights?
6. What is the difference between vested rights and contingent rights? Explain fully.

CHAPTER LVI

REAL AND PERSONAL PROPERTY DISTINGUISHED

§ 388. Personal Property Defined

Personal property consists of tangible things of all sorts, such as grain, wool, sheep, cattle, cloth, tools, etc. It also consists of leases of real property and all rights in real property which are of less dignity (not less duration) than a life estate. (See § 404.) In this connection, it would be well to state that in legal estimation a lease or estate for any fixed time, even for a thousand or two thousand years, is considered of less dignity than a life estate. Any interest in real property which is measured by years is regarded as personal property. The only exception to this is what are known as easements. (See § 411.)

Personal property includes goods and chattels and also what are legally termed "choses in action," that is, rights of action, or anything which would give one a right of action against another for money or property. A debt is a chose in action. A promissory note, a bill of exchange, a corporate bond, or a share of stock gives a similar right of action and is known as a chose in action. A right of action for damages to real property is a chose in action. A right of action for personal injuries is peculiar to the person injured and may not be assigned. It is therefore not regarded, strictly speaking, as a chose in action, though it is a property right belonging to the person who has a right to bring the action.

Patents, trade-marks, and copyrights are also choses in action and thus are personal property. They are valuable

forms of property which give rights of action to protect from infringers, a man's inventions, the good-will of his business, or the reproduction of his intellectual and artistic productions.

§ 389. Real Property Defined

Real property, on the other hand, consists of: (1) land, or any estate in land which is to last for one's own life or that of another, and (2) what are known as easements. These last are rights to some profit or beneficial use which one may have in or over the estate of another. (See § 411.)

§ 390. Questionable Cases

Generally, it is easy enough to distinguish real from personal property. The difficulty arises when one considers such things as growing trees, plants, etc., that are fastened to the soil itself. The law has decided that all plants that have to be planted every year and are produced by man's labor shall be considered personal property, even while they are still attached to the soil. (See § 402.) Trees while growing are real estate; when severed by the owner they become personal property.

§ 391. Fixtures

Houses and buildings are regarded as part of the land and are real property. Every portion of a building, therefore, which cannot be removed without destroying or injuring the building is also part of the real estate. If machinery is built into a factory, it is part of the factory, and cannot be removed from it. On the other hand, gas and electric light fixtures which can be removed without any injury to a house or building are regarded as personal property, and a tenant who puts them in may take them away with him when he leaves. If they are put in by the owner of the building, they become a part of the building and must not be removed by tenants.

When a tenant has put in machinery and improvements for the better conduct of his business, the courts will favor him as against the landlord. When the question comes up as between the buyer and the seller, the courts will favor the buyer.

Movable articles which are absolutely necessary to the use of the building, such as keys, are also regarded by the law as part of the real estate. A fence is part of the real estate, and if posts have been cut and laid out for building or repairing a fence, they are considered to be already a part of it and are real estate.

REVIEW QUESTIONS

1. What is personal property as distinguished from real property?
2. What are choses in action?
3. What kind of property is a trade-mark?
4. What is real property? What is an easement?
5. Is a fence real property? Are rose bushes real property? Are potatoes in the ground real property?
6. What are "fixtures"? How does the application of the rule differ when applied: (a) between seller and buyer of real estate, (b) between landlord and tenant?

CHAPTER LVII

TITLE TO PERSONAL PROPERTY

§ 392. Title

Title means the right to property and it also signifies the means or channel by which ownership is acquired. The subject has always had much interest for students and teachers of the law, because such a large proportion of the principles of the law relate to this subject.

Title to land may be by inheritance or descent, by will, or devise, by gift or purchase, or sometimes by occupancy.

Title to personal property may be by descent, by will, by gift, by purchase, or by increase of flocks and herds, by labor or manufacture, or by finding.

§ 393. Original Title

The origin of the right to personal property is in either occupancy or labor. A man has a right to take a wild animal or a fish, seaweed, or anything still in a state of nature and which belongs to no one else. By the act of taking the article it becomes his, and the law will protect him in his right.

The right to property through labor may be of two sorts. Where a man works for another, he earns wages for his services. The wages which he receives are his property, but the results of his labor belong to the man who is paying for them. On the other hand, where a man not working for another, by his labor produces something, he has a right to what he has produced. For instance, where a man writes a book, invents a labor-saving device, designs a dress, or draws up

plans for a public building, the book, the device, the design, or the plans are his own property.

In the same way, the right to property may be acquired through discovery. If a man should discover a buried treasure left behind by Captain Kidd or some other pirate, the treasure would become his. When lost property is found it belongs, of course, to the true owner if he can be discovered. If he cannot, the finder has a right to the property. The owner of lost or stolen property may reclaim such property from its possessor even if the latter, not knowing it had originally been stolen, paid a full price for it.

Note:

1. Never buy personal property where there is a doubt as to the seller's title.

§ 394. Derived Title

Most of our rights to personal property nowadays, except those that come from our own labor, come to us by title derived from someone else. We either buy property or have it given to us by someone else. Our right to it is then derived from the former owner.

Property may be bequeathed by will, transferred by actual gift, or acquired for a consideration. Where the state gives the right to property to anyone, it is known as a grant. In England, all gold and silver mines belong to the king, and he grants them to whom he wishes. When a person dies without leaving a will, his personal property is distributed to such of his nearest relatives as are legally entitled to it. Those who receive it in this way take title by descent. When personal property is left to anyone by will, the person receiving it takes it as a legacy and is called a legatee.

Note:

1. Generally, only an executor or administrator appointed by the court has the right to sell personal

property belonging to the estate of a deceased person.

§ 395. Accession

Another way of acquiring title to personal property is by what is known as accession.

Accession is the addition made to property, either by natural increase as in the case of flocks and herds, or by increase of its value through labor, or by annexation, as in the case of attaching fixtures to realty. The addition, whatever it may be, belongs to the owner of the principal piece of property, even though the material added may be of a great deal more value than the thing itself. A piece of machinery might be entirely rebuilt and would still belong to the original owner of the machinery.

If A takes some of his own property and some of B's innocently, through a mistake, and by his labor combines them into an entirely new article, the new article belongs to A, although B's property put into the new product was of a great deal more value. Even though the original property belonged entirely to B, if A has made an entirely new thing of it, the same law of possession holds true. For instance, if A should take some wood belonging to B and make it up into boxes or ladders, etc., the boxes or ladders would belong to A. Of course, he could be compelled to pay for the materials that did not belong to him. If, on the other hand, A knew that the property did not belong to him, the new article will, as a usual rule, belong to B who owned the property from which it was made.

§ 396. Confusion

Sometimes property belonging to two or more different people becomes mixed together so that it is impossible to distinguish it. This is called confusion of goods. If the con-

fusion happens by mistake, each party is entitled to a share as nearly equal to his original share as it is possible to estimate. If one of the parties deliberately brought about the confusion, he may secure what belongs to him only if he can clearly and unmistakably prove the amount to the satisfaction of the court. If he cannot, the whole belongs to the innocent party.

§ 397. Kinds of Ownership

Personal property may be owned entirely by one person, or it may be owned by two or more persons jointly or in common. Ownership may be absolute, or some conditions may be attached to it.

Ownership in Common. A right to property in common means that the two or more owners enjoy the use of the property together during the lifetime of all of them; and upon the death of any one of them, those who the law says are entitled to his estate have a right to come in and enjoy his share of the property together with the surviving owners. If they wish at any time to divide their shares, they may either agree among themselves to do so or resort to an action at law to have it divided for them.

Joint Ownership. When the ownership is joint, both of the persons enjoy the property so long as both remain living, and upon the death of either the whole property goes to the survivor. This right of the survivor to take the whole property is peculiar to joint ownership and differentiates it from ownership in common. On this account personal property is rarely held jointly.

Partnership Ownership. Partners do not hold any personal property in common. Any personal property used in the firm business is partnership property and is owned by the firm. (See Chapter XLV, "Partnership Property.")

Absolute or Conditional Ownership. The usual ownership of personal property is absolute. Personal property could be

bequeathed, given, or sold to a person on condition, or the ownership could be qualified. (See § 95, "Conditional Sales.")

Note:

1. It is rarely that any common or joint ownership of personal property is satisfactory to both parties. The sooner, in such cases, the property is divided or sold or one party is bought out, the better the prospect for continued friendship.

REVIEW QUESTIONS

1. What is meant by title? Why is the subject important in law? How may title to land be acquired? How can title to personal property be acquired?
2. If a man is paid \$5 for a day's labor and the result of his labor is worth \$10, to whom does the surplus value belong? Why?
3. If A buys an automobile and later B proves that it was stolen from him, to whom does it belong?
4. After a man dies, to what extent and for how long should the law allow him control over the personal property he owned when alive?
5. What is acquisition by accession?
6. What is the rule in case of confusion of property?
7. What is ownership in common?
8. What is joint ownership?
9. When is estate or ownership in chattels personal not absolute?
10. When is a finder entitled to keep lost property?

CHAPTER LVIII

TRANSFER OF PERSONAL PROPERTY

§ 398. Gift

The person who has the right or title to personal property has also a right to transfer it to anyone else. He may give it away if he wishes to do so. He may do this either by actually handing over the property, or by making out a bill of sale for it and handing that over to the person to whom he wants to give it. If the property is not easy to handle, it is not always necessary actually to hand over the property itself. Handing a person the keys to a building, or a savings bank book, or a bill of lading is equivalent to giving the person what is in the building, or the money on deposit, or the goods called for by the bill of lading. The giving of any means by which the recipient can obtain the property is sufficient.

Gifts made *causa mortis*, that is, to take effect in case of the giver's death, are treated later in § 449.

Note:

- I. When a gift is made, the fact should be clearly understood by both parties.

§ 399. Sale

The sale of personal property is a most important subject and has been treated at length in Part III of this work.

§ 400. Chattel Mortgage

Personal property may be mortgaged as well as real estate. A chattel mortgage is, in effect, the sale of a chattel with the

condition that if a debt or other obligation is paid by the party who makes the mortgage, the sale shall be void and the title shall return to the party who made the mortgage. Such a conditional transfer is often made to secure a debt or loan. It is usual for the party who makes the mortgage, called the mortgagor, to retain possession of the property, and in order to protect the title of the person to whom the mortgage is made, it must be recorded in the usual office of registry for the county. The object of this record is to give notice to other people that the property is mortgaged. Unless this record is made, the person to whom it was mortgaged could not claim his rights in the property if it were sold again to an innocent third party who did not know of the mortgage. A chattel mortgage is good usually for one year, or other period stated in the local statute, but may be renewed when about to expire.

A pledge of personal property is the transfer of the actual chattel as security for a debt or obligation. A chattel mortgage saves the necessity of this actual transfer of the property and permits the mortgagor to have the use of the property at the same time that it serves as security for the loan. Any personal property that is actually in existence and is owned by the mortgagor at the time the mortgage is made can be mortgaged. A growing crop, an automobile, household furniture, or a stock of merchandise can be mortgaged.

Chattel mortgages are invariably in writing and must be recorded in order to give notice to the public. Many times a chattel mortgage is made by giving an absolute bill of sale with a clause providing that it shall become null and void after the debt secured by the mortgage is paid. The property must be described so closely that third parties can identify it. The object of the mortgage is to give notice to third parties of its existence and this could not be done unless the description were sufficiently accurate to identify the property.

The object of the chattel mortgage is to secure a debt or

other obligation. Hence, the mortgagee's title to the property does not become absolute unless he forecloses the mortgage. It is usual to provide in the mortgage that if the debt is not paid the mortgagee may sell the property. If he does not sell, the mortgagor has a right to pay the debt and interest and redeem his property. Stocks of goods are often mortgaged and in such case it is understood that the mortgagor may continue to sell from them and keep the stock replenished and apply the profits to paying off the mortgage debt. (See Chapter CIX, Form 71.)

§ 401. Conditional Sales

The difference between a chattel mortgage and a conditional sale is as follows:

1. The party holding and owning the personal property makes a chattel mortgage to secure the due payment of a loan or other obligation, and he keeps the property. The mortgagee has a right to foreclose in case of default.
2. The party who makes a conditional sale sells the chattel and transfers the chattel over to the purchaser. (See § 400.) The vendor has a right to repossess in case of default.

Notes:

1. A chattel mortgage must be in writing and must be recorded.
2. A chattel mortgage must conform to the local law.

REVIEW QUESTIONS

1. What is a gift? Can a promise to make a gift be enforced? Can a gift be recovered if once made?
2. How is the title to personal property transferred? When sale of merchandise is made, when does title pass?

3. What is the object of a chattel mortgage? What is the procedure in your state as to chattel mortgages?
4. A gives B a chattel mortgage on a Marmon car. It is filed in Westchester where A lives. A takes the car over into Connecticut, and sells it to C who lives there. Can B enforce his right under the mortgage?
5. How does a chattel mortgage differ from a conditional sale with a right to possess?
6. What must the holder of a chattel mortgage do, in case of default in repayment, to make his title good?

CHAPTER LIX

ESTATES IN REAL PROPERTY

§ 402. The Nature of Real Property

By real property is meant land and anything permanently attached to it.

Buildings and fences are regarded as part of the land, though they may become personal property if the owner of the land severs them from it. Things which grow of themselves or which remain year after year, such as trees, perennial plants, etc., are regarded as part of the realty, so long as they remain attached to it, but after they are cut down they become personal property. The same is true of ice, stone, etc.; after it is cut or quarried, it becomes personal property.

Crops which have to be planted every year and which are therefore the fruits of labor rather than of the land itself are personal property. (See § 390.) A tenant has a right to those crops which he has planted himself if, when he planted them, he did not expect his lease to run out before they could be gathered. He has no right to fruit and perennial crops unless they have been gathered before he is required to give up the land.

The right to land includes everything underneath it to the center of the earth except such minerals as the government may claim. In some countries, the government has a right to the gold, silver, and more valuable metals. The right to property also includes the air above the property. Before the days of flying machines, the right to the air was neither enforced nor questioned, but it is very doubtful whether a man

could prosecute an aviator for trespass if he flew over his property. At any rate the owner would have to prove damages.

In studying the legal aspects of the ownership of land, it is necessary to distinguish:

1. *The property itself.* This may be, for purposes of illustration, an apartment house.
2. *The estate in the property.* An estate in real property is the interest which the person in possession holds. Several persons may hold different estates simultaneously; for example, there may be the following estates in an apartment house:
 - (a) An estate in fee simple held by an owner who may have leased the land for 99 years reserving a ground rent.
 - (b) A long-term lease held for 99 years by a lessee who may have put up the building and leased it to many tenants.
 - (c) Many short-term leases held by the subtenants. All of these parties have estates or interests in the property at the same time.
3. *The title to real property.* This is not the property and is not the estate in the property, but the means by which possession was acquired and is held. For instance, in the case of the apartment house:
 - (a) The owner who receives the ground rent took title by will, inheritance, or deed.
 - (b) The party who put up the building took title by a lease for 99 years.
 - (c) The tenants take title to their several apartments by short-term leases.

§ 403. Right to Real Property

Under certain established rules, land or real property may be held or owned by private citizens. It may be bought, it may be inherited or transmitted by will. If one can occupy unclaimed land long enough and escape dispossession by someone who advances a prior claim, he can still get a title by occupancy. It is now recognized, however, that the right of the owner is always subject to certain rights possessed by his neighbors and the public. A man cannot keep a pigsty or run a glue factory on his premises in the midst of a crowded city. In some cities there is a limitation on the height to which buildings may be erected. Also, there exists what is known as the power of "eminent domain," that is, the power inherent in the government to take private property for the use and benefit of all, as in the building of roads or railways. In such cases, the owner is compensated, but he cannot prevent the action of the government. Finally, the state has the power to tax, and may some day carry this to such an extent as to take away the entire private value of the land.

§ 404. Estates in Real Property

A person may own real property outright. This is termed an "estate in fee simple." Or he may possess the right to it for his own life or that of another. This last is called "an estate for life." Either of these estates in fee simple or for life is regarded as real property. If a man had a right to a piece of land "as long as A or B or either of them shall live," he would have a life estate for two lives. These are called "freehold estates" and at common law were held to be of greater dignity than an estate for years. Any other right to the possession of land is regarded as personal property, even though it may be a lease for a term of years much longer than anyone's life.

The holder of a life estate is bound to make such repairs

as are necessary to prevent the property from falling into decay, but he is not bound to make improvements, or replace buildings destroyed through no fault of his, or pay the principal of any incumbrance, though he must pay the interest. On the other hand, he must do nothing to waste the estate, such as stripping it of timber or opening new mines upon it, though he may work opened mines and cut a moderate amount of timber.

§ 405. Remainders and Reversions

When the life estate or life estates end, the final ownership of the property must either be given to someone else or revert to the original owner or his heirs. If the estate that is left is given to someone else, it is called "an estate in remainder"; if it comes back to the original owner, it is called a "reversion."

When the original owner is dead, the reversion comes back to his heirs. There may be remainders and reversions even after property has been leased for many years.

Remainders and reversions involve the absolute ownership of property.

§ 406. Vested and Contingent Remainders

If the person who is to take the remainder after one or more life estates is certain, and the fact that either he or his estate will get it finally is also certain, it is known as a "vested remainder." Although he may never live to enjoy the property, his right is certain, and if he dies, his heirs will inherit.

If, on the other hand, the person who is to take the remainder is not certain but can only be known later; or if the remainder is left to a person who is certain, but on a condition which may never happen, the remainder is contingent. For example, a man might leave property to his son for life and after that to his grandchildren, although he had no grandchildren at the time of making his will; in such a case the

person or persons who are to take the remainder would not be certain, but if any were afterwards born they would have a right to the property. Or he might leave the remainder to such of his grandchildren as were living at his son's death and it would be uncertain, until his son's death, which of his grandchildren would get the property.

On the other hand, the person who is to take the property might be perfectly certain, but the event might be contingent; as for instance, if a man should leave property to his nephew for life and the remainder to his niece if she were then living. It is certain who his niece is, but it is uncertain whether she will live to get the property.

§ 407. Executory Devises

An executory devise is an estate in land directed to take effect in the future, without the grantor's parting with any immediate estate. Strictly a man cannot transmit property by means of a deed which is to take effect at some future time. The title to the property passes when the deed is delivered; if the deed is not delivered, it is no deed at all. Such a future estate could be created only by deeding the property to a trustee to hold until the time appointed for the future estate to "vest." In such case the future estate would be an estate in remainder and not an executory devise.

But he may leave it by will in this way, without an intermediate estate, provided that the future time at which the title to the property is to "vest," or in other words become absolute in the person to whom it is given, is not delayed longer than the law permits. Such a bequest is termed an "executory devise."

§ 408. Time Limit to Effect an Executory Devise

The legal limit for an executory devise to take effect is usually within the time measured by the life or the lives of

persons in existence at the time the will was made. For instance, a man might leave property to his infant son to be his on the death of three other persons then living. The title of the property will then vest within the period of three lives.

In England, a man named Thelluson left his property tied up for a long period, the income to be added to the principal and the interest compounded. At the end of the period the entire fortune, which would then amount to an enormous sum, was to be delivered to his heir in the direct line, which would make him the richest man in all England. The heirs who were left out took the matter to the courts and the highest legal authority in England, the House of Lords, decided that the arrangement was contrary to public policy and should not be carried out. The principle established in this case has prevailed both in England and in this country and no property can be tied up in any way except for the limited period prescribed by the law. This is known as the law of perpetuity.

§ 409. Dower and Curtesy

At common law a wife was entitled upon the death of her husband to a life estate in one-third of any real property which he owned during their marriage. This right was known as "dower." In consequence, when a married man sells real estate, it is necessary that his wife join with him in the deed and that she expressly release her dower right.

If there was a child born alive, the husband was entitled upon the death of the wife to a life estate, not in one-third but in the whole of the wife's real property. This right was known as "curtesy."

Many states have abolished both dower and curtesy. In New Jersey each is given a life estate in one-third of the other's real property in place of dower or curtesy. Both dower and curtesy are life estates and on the death of the person entitled to such an estate the property is free from any

claim from his or her heirs or representatives. (See Chapter LXXII.)

§ 410. Homestead

A homestead, that is, the family residence and a certain quantity of land adjoining it, is usually exempt by statute law from all debts except mortgages, purchase-money liens, and mechanics' liens. An old homestead may be given up and a new one acquired; or a homestead right may be lost by the wife signing it away in a deed. In some states any homestead, no matter how valuable, is exempt, but in others there is a limitation of value, and the excess value may be taken by creditors.

§ 411. Easements

These are rights to make use of the land of another in some way, as by a right of way over the fields of one's neighbor, or the right to restrict another from erecting buildings which shut off light and air, or the right to have a drain pipe under another's land, or the right to have a party wall on the boundary line. When these rights are included in a deed of property they follow the property deeded and will pass with it to any subsequent owners. For instance, a man might want to sell a lot in the middle of his farm. In order to make it salable he gives the purchaser a right of way over the rest of the farm between this lot and the highroad. This right of way, which was the inducement to the sale and is necessary to the enjoyment of the property sold, passes along with the property to the next owner. It is inseparably connected with the property and is regarded as a part of it, and hence is considered real property.

If, however, a right of this sort is given by deed separately from the property, it belongs solely to the person to whom it is given and cannot be assigned to anyone else.

Mere oral permission to go across another's property, to pick apples from his trees, etc., is a license, and the owner may take it away at any time.

§ 412. Joint Tenancies and Tenancies in Common

The word "tenancy" in legal parlance means ownership or estate in land. It is not limited to the renting of land, but means a holding for years or for life. Any estate in land may be owned by two or more persons at the same time. They hold it either in joint tenancy or tenancy in common according to the deed or instrument from which they get their title. A single owner would hold in severalty.

In joint tenancy, on the death of one of the owners, the remaining owners take the property, the entire property going to the last survivor.

In tenancy in common, if one of the several tenants dies, his heirs have a right to share the ownership of the property with the remaining tenants.

Joint tenants or tenants in common may divide the property between them by agreement. If they cannot agree, they may bring what is known as a partition action and have the court divide the property between them.

§ 413. Trusts

When one person holds property for the benefit of another, he is said to hold it in trust. The one who holds property is called a trustee. The one for whom it is held is called the beneficiary, or in legal terms the *cestui que trust*.

A corporation formed for holding property as trustee is called a trust company.

A person may hold any of the estates that have been mentioned, except dower and curtesy, in trust for another or for several others. Some states do not allow trusts which would

prevent creditors from enforcing their claims against the property, except for married women and children under age. Trusts to accumulate income for more than a limited period are also prohibited. (See § 407.) Trusts for charitable purposes of more than a certain amount of a person's entire estate cannot be created by will in many states, if the person is survived by husband, wife, or children. Many states also restrict the amount of property which a charitable organization may hold.

If a person pays the price for land and another takes the title to it, unless a gift was intended, the person taking the title holds it in trust for the one who paid for it. Or if a person obtains property from another by representing that he is going to hold it for the benefit of a third party, the law will make him a trustee for that third party.

Property is often deeded to trustees to hold as security for the payment of debts, notes, or bonds. The subject is considered more fully in Chapter LXXXI.

A trustee or trustees take title to real property by will or by a deed, executed and recorded as any other instrument conveying land in due form. If such deed were informal, for example, not acknowledged, it could not be recorded, but as between the parties would be valid. The trustees would take title as would any grantees and their rights, duties, and powers are as defined and limited in the instrument creating the trust. They could not sell or mortgage the property unless so authorized, nor could they delegate any of their duties. If one of several trustees dies, his survivors could act, but not elect a successor unless specifically authorized to do so. If a sole trustee should die, or all of several trustees, and no provision were made in the deed of trust or will for such an emergency, the trust would not fail but the interested parties could apply to a court having jurisdiction to name trustees to fill any vacancies.

Notes:

1. Generally it is necessary to consult a lawyer before transferring an estate in real property either by deed or will.
2. Never buy real property without finding out whether the person selling is married and, if so, whether the law requires the husband's or wife's consent.

REVIEW QUESTIONS

1. What is real property? What is the rule as to growing things?
2. What is the meaning of the legal term "estates in land"? What is meant by "title to land"?
3. What is title by occupancy? What is the right of eminent domain? Is there any limit on the power of the state to tax land?
4. What are the freehold estates in land? What are estates less than a freehold?
5. What is a remainder? A reversion?
6. What is an executory devise? A contingent remainder?
7. In your state how long can a man by will or deed tie up real property? Why are perpetuities abhorrent to the law?
8. What is dower? What is curtesy? When the grantor in a deed is married, why should both husband and wife join in the deed?
9. What is the homestead exemption in your state?
10. What are the most usual easements? Is oral permission to go across another's land an easement?
11. What is a trustee? What is a *cestui que trust*? For what purposes may a trust be created in your state?
12. What does "tenancy" mean? Distinguish "tenancy in common" from "joint tenancy" and "tenancy in severalty."
13. Does a trustee hold title? Has he power of sale?
14. May a trustee give a valid mortgage on a trust estate?
15. If a deed of trust is unacknowledged what is the effect: (a) as to putting on record; (b) as between grantor and grantee?
16. If all trustees die, who holds title and who executes trust? May a trustee for the management of certain properties delegate his duties?

CHAPTER LX

TITLE TO REAL PROPERTY¹

§ 414. Original Title

The right to the ownership of real property was acquired in the first place by taking possession of it and keeping it. This is title by occupancy. To a certain extent this right still exists in parts of the United States, where unoccupied lands may be taken up by living on them for a certain length of time and filing a claim with the government.

Where property has been in open and undisturbed (continuous) possession of a party under a claim of right for a certain length of time prescribed by law, generally about twenty years, and when his possession is undisputed by anyone, the possessor acquires a good title to it. This is termed "title by prescription," or by "adverse possession." If any person who might have claimed the property was under age, insane, or absent from the country during any part of the twenty years, he would be allowed in addition the period of time so lost, before his claims would be barred. (See § 72.)

Note:

- I. It is not safe to rely on title by prescription in buying property. There may have been something to prevent the running of the statute of limitations.

§ 415. Acquired Title

The ownership of real property today is usually by title acquired from someone else. It may be acquired either by

¹ For forms of deed, mortgage, and lease, see Chapter CIX, Forms 70, 73.

deed, will, or inheritance. Any transfer of real property must conform to the laws of the state where the real estate is located. When real property is left by will, it is said to be devised and the person who so receives it takes by devise.

Title by Lease. Much real property is held by lease, but all leases are held to be personal property. A lease may be for a long period, say nine hundred and ninety-nine years, or may be from month to month. Leases are usually written instruments and are treated at greater length in Chapter LXII.

Title by Deed. The formalities necessary to transfer title to land by deed are taken up at length in Chapter LXI.

Title by Devise. (See Chapter LXI on this subject.)

Title by Inheritance. (When the owner of real property dies without making a will, the law of the state where the property is situated prescribes to whom it shall go. Their title is by inheritance. (See Chapter LXIII on this subject.)

REVIEW QUESTIONS

1. What is title? How long must a person occupy land to get title by prescription?
2. What are the usual methods of acquiring permanent title? What is the difference between a deed and a lease?
3. When a man dies, how is it determined what happens to his real estate?

CHAPTER LXI

TRANSFER OF REAL PROPERTY

§ 416. Conveyance of Real Property

A sale of real property must always be carried out by means of a document called a deed signed by the seller. If signed by an agent, the agent should be authorized under seal to act for the seller. The seller or vendor is designated as the grantor, and the buyer as the grantee.

Transfer of real property may also take place through the death of the owner, that is, by descent, or through a devise made by will. If he leaves children, grandchildren, or great-grandchildren, they have the first right to the property. If a man dies without children, leaving his father surviving him, the father takes the real estate. If his father is dead, the property is divided between his mother, brothers, and sisters. Grandparents may take by inheritance if none of the relatives mentioned above are left surviving; or if grandparents are dead, uncles and aunts may inherit.

In all of these cases, if a man leaves a wife surviving him, she is entitled to her dower right in one-third of the real property for life. The other relatives take their rights in the property subject to the wife's dower right and have but two-thirds until she dies. In most states the laws of inheritance are as given here. This subject is treated more fully in Chapter LXIII.

Real property is conveyed by a deed in writing. The deed must contain a full and accurate description of the property by metes and bounds, or by giving the legal subdivision, or subdivisions; it should state from whom and in what manner

the grantor obtained the property; and if conveyed to him by a deed, where the former deed is recorded. The deed must be signed by the grantor and acknowledged before a notary, justice of the peace, or a commissioner of deeds by the party giving the conveyance, and by the husband or wife of the grantor if the law of the state requires this formality in order to cut off dower, curtesy, or homestead rights. (For acknowledgments, see Forms 9 and 10.)

A deed should also be under seal. This today is a pure formality. Red wafers are generally used. In New York State the letters L. S., standing for the Latin words *locus sigilli*—"the place of the seal"—which were originally used to designate the place to affix the seal, are enough.

In order to take effect, the deed must be delivered into the hands of the person to whom it is assigned or into the hands of an agent whom the assignee has authorized to receive it.

A deed is presumed to take effect from delivery. Sometimes a deed is fully executed and is then placed in custody of a third person or of a trust company to be delivered when the purchaser makes a certain payment or fulfils other conditions. A deed or other document so placed is said to be in *escrow*.

There are two kinds of deeds in general use—quitclaim and warranty. A quitclaim deed merely releases the rights which the grantor has in the property, whatever those may be.

Notes:

1. It is necessary to consult the laws of the state in which real property is situated to know the exact formalities of transfer.
2. Where the grantor is married the marital partner should always join in the deed.
3. The laws on inheritance differ to some extent in the various states. In order to determine who are a man's heirs it is necessary to consult the statutes.

§ 417. Warranty Deed

In a warranty deed, the seller when conveying the property warrants that the title is free from all defects which might disturb the purchaser in the enjoyment of the property later, and that the grantor will protect the purchaser in his rights and execute any further instruments that may be necessary to secure them. (See Form 72.)

Where the person giving the deed wishes to convey the property outright and to give absolute ownership, the words "to him and his heirs forever" *must* be used. On the other hand, if he wishes to convey only a life estate or other limited interest, these limitations must be clearly stated, or the grantee will take the same interest that the grantor had in the property. (See Chapter CIX, Form 73.)

The essential parts of a warranty deed are as follows:

1. The parties
2. The consideration and grant
3. Description
4. Habendum clause
5. Covenants
6. Signatures and seal
7. Attestation
8. Acknowledgment
9. Delivery

A warranty deed under the old common-law forms is a rather cumbersome instrument. In some states this form is still used, but in many states a short-form deed has been prescribed by statute. Where this is the case, the instrument is much simpler.

It is necessary, when real property is to be transferred, to ascertain what form is used in the state in which the land is located. The following essentials are to be considered in every deed:

1. *The parties* must be designated with certainty. The usual way to do this is to state both the surname and Christian name with any middle initial of each party and the place of residence of each.

2. The *consideration* and *granting clauses* are placed briefly in the short form as follows: "In consideration of the sum of four thousand (\$4,000) dollars in hand paid, conveys and warrants to —." The more cumbrous verbiage of the common law will be found in Form 73.

3. *The description* may be by metes and bounds or may merely name the legal subdivision. Examples of both kinds are shown in the forms given.

4. The *habendum clause* follows and in its briefest form reads: "To have and to hold the said premises unto the said party of the second part, his heirs and assigns forever."

5. The *covenants* follow. These are given in the longer form. (See Form 73.)

6. The *testimonium clause* followed by the signatures and seals of the party or parties who are grantors would come next.

7. An *attestation clause* is next in order, in those states where a witness or witnesses are required.

8. The *acknowledgment* will follow, as indicated in the forms. The form of the acknowledgment and rules as to its execution differ in each state, and a deed must in all matters conform to the law of the state where the land is located.

9. *Delivery* is the final act. A deed without delivery would be no deed and would give no one any rights. The delivery is an absolutely essential feature of the deed.

§ 418. Records of Deeds

A deed which has been delivered is good as between the two parties concerned, the seller and the purchaser of the property, but in order to make the purchaser's right good

against all claims the deed must be recorded. It is usual for each county to have an office for the recording of all deeds affecting real property located in that county.

The laws in each state usually provide for the record of instruments "that create, transfer, mortgage, or assign interests in real property, whether legal or equitable, or by which the title to any real property is affected."¹

It is of vital importance that a deed be recorded. If a deed is not recorded and the seller executes another deed which is filed, or a creditor of the seller secures a judgment against the seller, the holder of the first deed has no claim to the land. All he can do is to bring suit against the seller for damages. The record of a deed is absolutely essential to give a good title to the holder.

§ 419. Restrictions in Deeds

Restrictions in deeds are generally made for the benefit of the surrounding property. They are legal and binding so long as they are not against public policy; for instance, a restriction for the purpose of creating a monopoly or restricting competition would be illegal. Usually such restrictions relate to the character of buildings which may be erected in a certain locality.

If the deed provides that in case the grantee violates the restriction, the property is to revert to the grantor or his heirs, then any such violation destroys the right of the grantee; if the deed does not so provide, damages must be paid for breach of the agreement, but right to the property is retained.

If the restrictions are intended to benefit the surrounding property, any of the owners of that property may enforce them. They remain restrictions on the land even when it is transferred to another owner. An owner who violates the restrictions cannot plead that they are not mentioned in the

¹ Vol. II, Reeves on Real Property, page 1486.

deed. If the character of the neighborhood materially changes so that the restrictions become unreasonable, the courts will as a rule permit the violation to be settled by the payment of damages, even though the original deed provided that the property was to revert to the grantor or his heirs if any of the imposed restrictions were violated by the grantee.

§ 420. Searching Title

A purchaser of property should always insist on a warranty deed for his own protection, unless the circumstances are such that he is willing to take the property even at the risk of further expense to protect his title. Any restrictions in earlier deeds continue to affect the land, even in the hands of a later owner. The possibility of defects in the title of, or existing claims against, any property is also always present. Therefore, the purchaser of real estate should always have the title examined to make sure that his right is incontestable and that he is likely to remain in undisturbed possession.

An abstract of title is a carefully written report showing all matters which affect the title. These items are of record concerning a particular piece of land.

To make a thorough search is no simple matter. It is necessary carefully to examine the various records for the following encumbrances:

1. Mortgages and equitable mortgages. A vendor's lien duly reserved is held to be an equitable mortgage.
2. Judgments or *lis pendens*, i.e., notice of suits that affect the title.
3. Taxes and assessments unpaid, for state, county, city, or for transfer.
4. Mechanics' liens.
5. Any rights of dower or curtesy that have not been released.

This search may be most effectively made by one of the numerous companies whose business it is to examine such titles with a view to insuring their validity. As specialists in this complicated legal work they can quickly form a reliable opinion as to the validity of any title to property within a given locality. In many cases it is advisable to have the title guaranteed by some one of the title guaranty companies.

A method of guaranteeing any title, called the Torrens System, is used in Australia. This system has been adopted in some states in this country. Under the Torrens System in New York, any person having an interest in the property may bring a proceeding to register the title. He must prove to the court that his title is good. Once registered, the state guarantees the title and virtually insures the owner against adverse claims; and any subsequent changes in the state of the ownership, etc., will be recorded on the registry, saving further searches.

§ 421. Mortgage of Real Property

A mortgage of real property is given as security for the due payment of a note or, more generally, a bond. A bond is a formal obligation, under seal, to pay money at a certain time or under certain conditions. A mortgage is in form an instrument like a deed, assigning the property in question to the man who has loaned the money, but providing that if the money is repaid when due, the assignment shall be null and void. Sometimes an absolute deed of land is given to secure the payment of money; in such case the deed is in reality a mortgage and may be so proved. It is classified as an equitable mortgage.

Formal mortgages and deeds of trust are termed "legal mortgages."

When property is sold, the usual method of securing deferred payments is for the purchaser to give a legal mortgage

for the amount unpaid. When this is not done, the seller has what is called a "vendor's lien" on the land. Sometimes this is expressed in the deed. Such a lien is classed as an equitable mortgage.

When suit is brought that will affect the title to property, notice of it, called a "lis pendens," may be filed. This gives a lien on the land and is considered an equitable mortgage.

The possession of the property remains in the hands of the mortgagor (the person who executes the mortgage), and the mortgagee (the person who loans the money) has the right to foreclose or take possession of the property if the mortgagor does not live up to his agreement. The collection of interest on a mortgage must be provided for in the written agreement.

Form of Mortgage. A mortgage is in form a deed of the property from the mortgagor to the mortgagee. (See § 416 and Form 74.) If the conditions that are named in the deed are fulfilled it will become of no effect; if the conditions are not fulfilled, the mortgagee will have a right to foreclose. The mortgage should be under seal and should be recorded in the office for the registry of deeds in the county where the property is located. When paid, a satisfaction piece stating in simple terms that the mortgage has been paid and referring to the page of the record where it is recorded should be filed with it. In New York, the original mortgage together with the satisfaction piece should be left on file for ten years.

Mortgageable Property. Any property, or interest in property which may be assigned, may be mortgaged. This includes, of course, any tangible property. It also includes interests in property which will mature only in the future. Even if they are interests which may never take effect, such as contingent remainders (see § 406), in some states they may be assigned and mortgaged.

§ 422. Foreclosure

The term "foreclosing a mortgage" implies that legal steps are to be taken to sell the property and to apply the price realized to the payment of the debt. If more is realized by the sale than is necessary to pay off the mortgage, the interest due, and the expenses of the enforced proceedings, any surplus belongs to the mortgagor. If there is a deficit, the mortgagee may sue the mortgagor on the bond and collect what remains unpaid. Usually both bond and mortgage are sued on together.

Up to the time the property is sold the mortgagor has the right to redeem it from sale by paying the amount of the mortgage, the interest, and the expenses up to the time of the foreclosure. This right of the mortgagor is termed his "equity of redemption."

If the property is transferred it remains subject to the mortgage, but the new owner does not become personally responsible for the payment of any part of the debt. The property is bound, but if on the sale it does not bring enough to satisfy the mortgage, the new owner is not liable. The original mortgagor still remains responsible. He may give notice to the mortgagee to foreclose when the mortgage falls due, or may offer to pay the amount due and to take an assignment of the mortgage.

Method of Procedure. The first step in a foreclosure is to file notice of the suit (a so-called *lis pendens*) in the office where the mortgage is recorded. This warns all third parties; and as a result any possible rights which they may claim in the property or later acquire will be subject to the prior claim of the mortgagee as established by the suit.

When bringing a foreclosure suit, all persons interested in the property must be given notice to defend their interests. This is done in order to give them opportunity to protect their rights in the property or in the surplus proceeds if there be any. Persons who hold liens against real property are re-

quired to record them if they wish to protect their rights as against third parties. An examination of the books in the offices of record in the county where the mortgage is recorded will reveal the names of any such persons.

If the property is leased, tenants should also be made parties defendant to the action, since possession is considered interest in the property and possession under an unrecorded deed is good notice of a possible ownership.

§ 423. Kinds of Mortgages

Deeds of Trust. Mortgages may be given by a deed in trust to a third party as trustee. This is the usual rule with corporate mortgages. These are called "deeds of trust." The trustee has the right to foreclose. If he fails to exercise his right, a bondholder may bring foreclosure for the benefit of other bondholders on showing the court that the foreclosure is necessary to protect their interests and that the trustee refuses to take action.

Purchase Money Mortgages. These are mortgages given for part or the whole of the purchase price of land. They take precedence of every other claim against the property. It is not necessary for a wife to join in a purchase money mortgage in order to cut off her right of dower. The mortgage is attached to the property before it becomes the property of her husband, and she is entitled to dower only in what may remain to her husband after the mortgage on the property is paid off, or in his equity of redemption which will be his share of the price of the land on foreclosure sale. The mortgage may be given either to the person from whom the land is bought, or to a third person.

Building and Loan Mortgages. Building and loan mortgages are frequently given to secure funds for erecting a building. The money is paid over in instalments as the building reaches certain stages. Interest may be charged on each instal-

ment only from the time it is paid over; but the mortgagee may deliver the whole amount to a trust company to be held and paid over as the instalments fall due. Full interest may then be charged, deducting the amount which the trust company allows on the deposit.

Sundry Mortgages. Corporate mortgages can be given only with the consent of two-thirds of the stockholders. Guardians and trustees may give mortgages only with the court's permission; they, as well as such institutions as savings banks, are also restricted in the kinds of mortgages which they may accept. In New York, savings banks may hold mortgages on improved real property to an amount not exceeding 60 per cent of its value. Trustees and guardians are limited to the same kinds of investments as savings banks.

If an executor or an administrator gives a mortgage, the agreement binds only himself personally and not the property of the estate, unless the executor is given power to mortgage in the will.

Contract to Mortgage. This must be in writing and signed as is a contract for a deed (see § 416.) The mortgagee can compel the mortgagor to carry out his contract and to give him a mortgage on the property, because his agreement concerns real property; the mortgagor, on the other hand, has a right to damages only in case the mortgagee fails to carry out his agreement. If mortgaged property is sold and the mortgagee at the request of the new owner extends the time for payment, he relieves the original mortgagor and can only recover from foreclosure and the new owner.

Notes:

1. Everything necessary to keep the property in good shape, such as payment of taxes, repairs, etc., should be provided for in the mortgage, with a proviso allowing the mortgagee to foreclose if the

payments are not kept up; and it should be provided that in case any suit is brought against the mortgagor concerning the property, he will have the mortgagee brought into court to protect the latter's rights.

2. A mortgage should always state what other claims there may be against the property at the time the agreement is made. If the property is sold on foreclosure and the purchaser is not informed in regard to these claims, if any, he may refuse to take the property. If they are indicated in the mortgage they cannot be overlooked when the sale is made.

REVIEW QUESTIONS

1. What is a deed?
2. What is a quitclaim deed? What is a warranty deed?
3. What are the essential features of a warranty deed? What are the requisites of a deed in your state?
4. What is meant by the execution of a deed?
5. What is essential to the proper execution of a deed conveying land? Is attestation required in your state?
6. Define acknowledgment of a deed. What is its object? Why? Is it essential?
7. When does the record of a deed take effect? How must a deed be recorded?
8. Is recording of a deed not properly acknowledged good against creditors and subsequent purchasers without notice?
9. When does a deed conveying realty take effect? What is the legal presumption?
10. What is meant by placing a deed in escrow?
11. By the law of what place is a contract for the transfer of real property governed?
12. If restrictions on the use of real property become unreasonable, what relief will the courts give?

13. What is the object of searching title? What is an abstract of title? What is the Torrens System and what are its advantages?
14. What is a mortgage? A bond? A deed of trust?
15. May a conveyance of property, absolute on its face and under seal, be shown by outside evidence to be only a mortgage?
16. Define equitable mortgage. What kinds of foreclosure are there?
17. Define mortgagor's equity in real estate.
18. Before completion of an action to foreclose, the mortgagor goes into bankruptcy. Can the mortgagee foreclose? Can he enforce the bond?
19. What is the method of foreclosing a mortgage?
20. A mortgage is not paid off by foreclosing. What rank has the claim of the mortgagee for the remainder among claims of other creditors on other property of the debtor?
21. Who may redeem real property from a forced sale and within what period of time?
22. Has a judgment when docketed preference over an existing unrecorded mortgage?
23. A makes a bond and mortgage, and later transfers the property to B. B, when the mortgage falls due, gets an extension. Does this affect A's liability on his bond?
24. A borrows money from B and mortgages his house as security. A then sells the house to C, who pays to A the difference between the value of the property and the amount of the mortgage. The mortgage is unpaid at maturity, B forecloses it, and the property is sold for less than the amount of the mortgage. Can B collect the difference from either A or C? Explain fully.
25. A held a bond and mortgage executed by B for the sum of \$5,000. B paid A in instalments from time to time until he had paid \$4,000. A assigned the bond and mortgage to C, receiving from him \$5,000. Afterwards, B tendered C the \$1,000 still due and demanded satisfaction of the mortgage, which C refused and brought suit to foreclose. Is C entitled to recover the full amount? Give the reasons for your answer.

CHAPTER LXII

LANDLORD AND TENANT

§ 424. Lease of Real Property

A lease of real property gives the right to its use for a certain length of time in return for rent. A lease may be at will; that is, no definite time may be fixed for its termination, but in that case the landlord may bring it to an end when he wishes; or it may be for a fixed period, such as a year, or a month. At the end of the period the lease ends. If the tenant remains in possession of the property, the landlord may regard him as a trespasser and request him to leave, or he may permit him to remain and may accept rent, in which case a new lease is implied for the same period as the old one.

If the tenancy was from year to year, the new lease will be for a similar period. In case of such a lease, either party must give the other six months' notice in order to terminate the lease. This was the common law rule. In many states this has been changed by statute and only three months' or sixty days' notice is required. If the lease ran from month to month, then twenty days' notice is sufficient. The notice must be given the required period before the end of the year, or twenty days before the end of the month—otherwise the lease will run over for another year or another month. A lease can be ended only at the close of the year or the month. An agreement for a definite term, as for a month or a year, requires no notice. It simply terminates at the specified time, and the tenant may leave or the landlord take possession without recourse to the other party.

In New York a lease for more than one year is void unless

in writing, signed by the party or his agent, who is required to have written authority to execute a lease of this kind. That is to say, the contract as between landlord and tenant is not illegal or void if carried out by them; but should a suit arise, unless a memorandum or some writing signed by the person to be charged can be shown by the plaintiff, the contract is void and no action will lie.

The bankruptcy of a tenant will not affect the lease.

A tenant when quitting the premises must take all his possessions with him, as any property remaining on the premises after the expiration of the term will constitute a holding over. Where, however, the landlord or the janitor allows property to remain on the premises for a time, to convenience the tenant, this will not constitute a holdover.

An estate at will may be terminated at any time by the mutual consent of the parties. If an owner transfers property to a third party, a tenancy at will is terminated. Tenants at will may not sublet.

§ 425. Parties to a Lease

The parties to a lease are the landlord—the owner who lets the property—and the tenant who rents. The tenant is obliged to pay rent and to keep the property in as good condition as received, reasonable wear and tear excepted. Where the landlord is responsible for the maintenance of hallways, basements, etc., as in an apartment house or an office building, he must keep them in usable and safe condition. Otherwise, he is not bound to make repairs unless it is provided that he shall do so in the lease. But if there is any defect in the property which could not be discovered on examination at the time when the lease was signed and of which the landlord knew, such, for instance, as impure drinking water, which only experts could detect, the landlord is liable in damages and the lease may be treated as broken.

§ 426. Rights and Duties of Landlord

If the tenant fails to pay rent or breaks any other agreement in the lease, the landlord may evict him. If the landlord accepts any of the rent due after the tenant has broken the lease in this manner, he cannot put him off the premises, but may bring suit to collect the remainder of rent or for damages. In case of eviction the tenant must be given due notice, the length of time depending upon statutory requirements.

At common law, if leased buildings were destroyed, the tenant had to continue to pay rent and might be compelled to rebuild. Some of the states have changed this by legislation, so that tenants who are not at fault may in such cases terminate their leases by vacating the premises promptly if the buildings are rendered untenable by reason of fire, dampness, offensive odors, defective plumbing, and the like. Except by express stipulation, the owner pays all taxes and assessments.

It is the duty of the owner to provide suitable guards at elevator shafts, and the tenant as well as any third person may recover from him for injury due to his failure to do so.

The lessee need not permit anyone to enter upon the premises he has leased, unless, as is usual, it is stipulated that for a certain time before the expiration of the lease, prospective tenants shall be admitted. If, however, the landlord is compelled by law or city ordinance to make alterations, he may of course enter upon the premises and make the required changes. A building which has been erected by a tenant on the land leased by him, becomes a part of the realty and belongs to the landlord.

§ 427. Rights and Duties of a Tenant

If the landlord takes possession of a whole or part of the premises during the term of the lease, this is equal to eviction

and is so called. Such procedure constitutes a breach of the lease on the landlord's part and the tenant need not thereafter pay rent. If the tenant is evicted from only part of the leased property, he may remain on the rest of it and refuse to pay rent.

If the landlord permits anything which renders the property uninhabitable, such as insufficient heat in an apartment house, this is termed a constructive eviction. The tenant has then the right to move out and refuse to pay any more rent; but if he remains he must pay. If the tenant supplies the heat himself or makes repairs which the landlord should have made under the lease, he may collect the money he has spent from the landlord; but if such expenditures are deducted from the rent this procedure gives the landlord the right to terminate the lease.

The tenant has no right to utilize the resources of the property, except wood used to make necessary repairs. If there are developed mines on the land he may work them unless forbidden by the lease, but he has no right to open mines. He has a right to fruit, grass, etc., which ripens or is cut or picked before the lease runs out, and a right to any crops which he has planted himself if he has reason to expect that they will be ready to be gathered before the lease expires.

The tenant may not make alterations except with the landlord's consent. If the landlord has not consented, the carpenters and builders will not have a mechanics' lien against the building.

If the action of the elements renders part of the leased premises untenable, even though the landlord immediately sets about repairs, the lessee may consider the lease broken, pay rent up to that date, and leave. But the lessee may not claim any damages for loss incurred, whether or not he remains.

§ 428. Expediency of a Written Agreement

A lease must be in writing if for a longer term than a year. In some states it need not be in writing unless it is to run for three years or more and need not be under seal. A written agreement, however, should be made whether the statute requires it or not, and should state whose duty it is to make repairs, and what notice shall be necessary to terminate the lease. If the landlord does not want the premises sublet, he must see that a provision against subletting is included.

Unless forbidden in the lease, the tenant may sublet either the whole or a part of the premises. He remains responsible to the landlord for the payment of rent and for the relinquishing of the property in as reasonably good condition as received.

In every locality landlords have printed forms of lease and tenants are rarely in a position to insist on any variation of terms.

It is not necessary to record any lease, but it is wise to do so if the tenant does not intend to occupy the premises he has leased. If this is not done and the landlord leases the same property to an innocent third party, the third party will not be obliged to give up possession to the first lessee.

Note:

1. The tenant is at a disadvantage and must depend largely on the landlord's character for fair dealing.

REVIEW QUESTIONS

1. What is a tenancy at will? What notice would be required to terminate a tenancy at will? What notice for a tenancy from month to month? What notice of lease is for a definite term?
2. What leases are required to be in writing? What leases should be recorded?
3. On an oral ten-year lease, B enters and pay two years' rent. Can A eject B without notice?

4. Is a landlord obliged to make repairs?
5. If a landlord permits unsanitary conditions, what is the effect?
What is the usual result of disputes between landlord and tenant? What is a constructive eviction?
6. If a house were struck by lightning and part of the roof destroyed, what would the rights of the parties be?
7. What are the advantages of a written lease?
8. Does a tenant have the right to sublet the premises?

PART XI

WILLS AND INHERITANCE

CHAPTER LXIII

DISTRIBUTION OF PROPERTY OF AN INTESTATE

§ 429. Definitions

If a man dies without making a will, he is said "to die intestate," and the law will distribute the property he has left after his death to those people whom it considers entitled to it. These are his closest relatives. The law differs with regard to the distribution of real property and personal property.

A will is a formal written disposition of his property to take effect after his death, made by a person of sound and disposing mind.

Personal property left by a will is called a "legacy," and the person to whom it is left is called a "legatee."

Real property left by will is called a "devise" and the person to whom it is left is called a "devisee."

An heir, in the strictly legal sense, is one who inherits real estate.

A testator is one who makes a will.

Next of kin are those most closely related.

Distribution is the legal term for the disposition made by law of the personal property of a person dying intestate.

An administrator is a person or a trust company appointed by a probate court to dispose of the effects of the intestate.

The probate court or an orphan's court or a surrogate's court is a special court having charge of all matters relating to the proof of wills and settling of estates.

§ 430. Rules of the Common Law

By the rules of the common law all realty goes to the eldest son; this is called the "law of primogeniture"; if there

be no son, then it goes to daughters as tenants in common. The inheritance can never ascend; it must always descend. Husband and wife have curtesy and dower only; they do not inherit from one another. The descent is always traced from the common ancestor, and the degree of consanguinity is measured by the distance from the common ancestor on the part of the descendant. Personal property passes to the next of kin.

These rules have not been followed in this country, but in each state it is provided by statute how real and personal property shall be distributed after the death of the owner.

§ 431. What Will Become of Real Property

In the state of New York, if a person dies intestate leaving real property, the law will dispose of it in the following manner:

I. *Leaving children but no husband or wife:*

- (a) If all are living, each one gets an equal share.
- (b) If some are living, and some are dead, the property will be divided into as many equal parts as there are children living, and children who have died but left children, and
 - (1) Each living child gets one of the equal parts.
 - (2) The share of each dead child is divided equally among his or her children.
 - (3) If any children have died leaving no children, the property is divided as though they had never existed.
 - (4) To illustrate, if the deceased had four children, the first of whom had died childless, the second of whom had died leaving one child, the third of whom

had died leaving two children, and the fourth of whom was living, his property would be divided into three equal parts, completely disregarding the first who had died childless. The child of the second would receive one share, the two children of the third would each receive half a share, and the fourth, the surviving child of the deceased, would receive one share. Legally adopted children usually have the same rights as one's own children.

2. *Leaving grandchildren, but no children:*

- (a) If all are living, each one gets an equal share, that is, they share *per capita*.
- (b) If some are living and some are dead, the property is divided in the same way as in the paragraph above, and
 - (1) Each living grandchild gets one of the equal parts.
 - (2) The share of each grandchild who died leaving children is divided equally among his children, that is, they share *per stirpes*.
 - (3) What applies to children applies also to grandchildren who have died leaving no children.

3. *Leaving great-grandchildren, but neither children nor grandchildren:*

The same thing follows as in the case of children and grandchildren, as given above.

4. *Leaving no children, grandchildren, or other descendants:*

- (a) If the deceased's father and mother are both liv-

ing, generally speaking all the property goes to deceased's father unless it came to him or her from the mother's side.

- (b) If the deceased's father is dead and mother living, she usually gets the use of the property for life, and after her death it is divided among deceased's brothers and sisters.
- (c) If the deceased's father and mother are both dead:
 - (1) The property is divided equally among deceased's brothers and sisters; the share of any brother or sister who is dead leaving children being divided equally among his or her children in the same manner as explained in paragraph 1-b.
 - (2) If there are no brothers or sisters, the property is divided among nieces and nephews and their children in the same way, and so on down through grand-nieces and grandnephews, great grand-nieces and great-grandnephews, etc.; except that property which came to the deceased from the mother's side will be divided among uncles, aunts, and cousins on the mother's side, if there are any; property which came to the deceased from the father's side will be divided among uncles, aunts, and cousins on the father's side, if there are any, in the same way.
 - (3) Where there are no uncles, aunts, or cousins of any degree, the grandparents take it. If the property came from the mother's side, the grand-

parents on that side take it, if they are living; if from the father's side, the grandparents on that side in the same way; if from neither, it is equally divided among all surviving grandparents.

Children of the half-blood inherit only from their own parents.

Half brothers and sisters, and uncles and aunts who were half brothers or sisters of the parents of the deceased will take the same shares as whole brothers and sisters, uncles and aunts.

If a man dies intestate, leaving a wife, she will be entitled to the use of one-third of his real property during her life. This is known as the right of dower. Other persons who inherit must allow her this right, or pay her an equivalent in money. (See § 409.)

If a woman dies without leaving a will, and she has had children, her husband will be entitled to the use of all of her real property during his life. This is known as the right of curtesy. The children can take the property only after he is dead. If there have been no children, the property goes to the relatives first named. (See paragraph 4 above.)

If a person dies intestate without leaving any relatives his or her property goes to the state.

When, during his lifetime, a person has transferred real or personal property to any children, the amount of the advancement will be subtracted from the share which is given the child at his death so that all the children in the end may share alike in the property. The law regards the person who is dead as having made the transfer as an advancement of the share which the child would have received at his death. Not all gifts or sums of money, however, which are given to a child

are accounted as advancements. On this account advancements are sometimes a cause of contention and ill-feeling.

The statements above are based on the inheritance law of New York. Other states follow the same general lines, but may differ in some particulars, and the statutes of the state in which the property is situated should be consulted. The law of the state where real property is located always governs the disposition of the property.

§ 432. What Will Become of Personal Property

If a resident of New York dies without making a will, his personal property will be distributed in the following manner, depending on which of the relatives mentioned is left:

1. *Leaving a husband or wife and children:*

One-third goes to the husband or wife, and the other two-thirds are divided equally among the children.

The shares of any children who are dead are equally divided among their children in the same way as in the case of real estate. (See paragraph 1-b in § 431.)

2. *Leaving children but no husband or wife:*

The property is divided among the children equally, the children of any who are dead receiving their parent's share which is equally divided among them.

3. *Leaving a wife but no children:*

(a) If the deceased's father is living, the wife gets one-half the property; the father, the other half.

(b) If the deceased's father is dead:

(1) The wife gets one-half and the other half is divided equally between the deceased's mother and brothers and sisters. If any of these is dead, his or

her share goes to his or her children in equal parts. (See paragraph 1-b in § 431.)

(2) If deceased has no brothers and sisters, but has nephews and nieces of any degree, the other half is divided equally between the deceased's mother and such nephews and nieces. The share of a nephew or niece who has died is divided equally among his or her children (see paragraph 1-b of § 431.)

(3) If deceased leaves neither brothers nor sisters, nephews nor nieces of any degree, the wife takes one-half and the mother the other.

(4) If deceased leaves neither father nor mother, brothers nor sisters, nephews nor nieces, the wife gets the entire property.

4. *Leaving a husband but no children:*

The husband takes all the estate. This is the old common law rule, and applies because no state legislature has changed it.

5. *Leaving no husband, wife, or children:*

(a) If deceased's father is living, he gets the whole property.

(b) If deceased's father is dead:

(1) The property is equally divided among deceased's mother, brothers, and sisters, and the children of such as are dead; or, if there are no brothers and sisters, between deceased's mother and nephews and nieces of any degree and

the children of such as are dead, in the same way as explained in 1-b of § 431.

- (2) If there are no brothers or sisters, nephews or nieces of any degree, then deceased's mother receives the whole.
- (3) If deceased's mother is dead too, the property will go to uncles and aunts, or, if none be living, to cousins of any degree or to grandparents. In the case of any of these relatives, if any have died leaving children, the children do *not* receive a share. The property is divided among those who are living.

Where a person dies intestate leaving no relatives at all, any personal property which came to the deceased from a deceased husband or wife will be distributed among the deceased husband's or wife's surviving relatives in the manner illustrated above. Any which did not so come will go to the state.

Half brothers and sisters are counted as own brothers and sisters, and uncles and aunts who were half brothers and sisters of the parents of the deceased as fully related.

This distribution of personal property is in accordance with the law of New York. In other states it is important to consult the local laws as to the distribution of personal property as they differ greatly. Personal property is always distributed according to the law of the state of which the deceased was a resident. A wife's residence is where her husband lives even if she is actually living apart from him, unless she has had a legal separation, a divorce, or good grounds for either. (See § 476.) The residence of a person under twenty-one is his father's residence; or his mother's, if his father is not living. If his mother has remarried, the child's residence does

not change but remains in the state in which his mother was living before she remarried.

§ 433. Is it Wise to Make a Will?

As a general rule a will is better. Usually a person can distribute property more justly and provide more generously for those who need his help than can be done by the general rules of the law. Even if a person is satisfied with the disposition which the law makes of his property, he can, by making a will, save his surviving relatives trouble and expense. If there is any personal property to be distributed or any debts are to be paid, it will be necessary for someone to take out letters of administration and the person taking them out will be obliged to give a bond in double the amount of the property, which means expense and trouble. A person may provide in his will that his executor may serve without giving a bond.

Whenever there is no will the law gives the administration of the estate to the nearest relative who is willing to take it, a surviving husband or wife coming first in order. To avoid this, it may be preferable to select some other person of superior business ability to take charge of the estate. If this is done the consent of the party to serve should be first procured, as he may refuse and the administration of the estate will then come back to the person whom the law selects, even though there is a will.

A trust company may act as executor and in most cases this will be more satisfactory than the designation of an individual.

Note:

1. If the person to whom you are going to leave the bulk of your property is a person of integrity and fair business ability, it is advisable to name him as executor. Persons not interested in the estate are

apt to shirk the responsibility, especially if they are required to go to the expense and trouble of procuring bonds.

REVIEW QUESTIONS

1. Define a will, heir, devisee, legatee, testator, intestate, next of kin.
2. Give the common law rules as to the distribution of property of an intestate. The common law rules are simple. What criticism would you make?
3. Give abstract of the disposition of an intestate's real estate in your state: (a) where there are children; (b) where there are no children, but both parents live; (c) where there are no children, but one parent lives; (d) where there are no children or parents, but brothers and sisters and children of a deceased brother.
4. Give abstract of disposition of personal property of an intestate in your state. (Same details as for real property.)
5. What law governs as to the inheritance of real estate?
6. What law governs as to the distribution of personal property?
7. An intestate in your state leaves real estate that had been left him by his maternal grandfather. He leaves no children, but father, mother, brother, and children of a deceased sister are living. To whom would the property go? If the real estate had been purchased, to whom would it go?

CHAPTER LXIV

HOW TO MAKE A WILL

§ 434. Who Can Make a Will

Persons under age cannot make a will, except of personal property. Generally at the age of eighteen, or at an earlier age in some states, one may make a will of personal property.

In some states a woman after her marriage can make a will only with the consent of her husband.

In order to determine whether a person is old enough to make a will of personal property, or whether a married woman must have her husband's consent in order to make a will, it is necessary to consult the statutes of the state where the person lives, if the will concerns personal property; of the state where the property is located, if it concerns real estate.

"Sound and Disposing Mind." The essential quality of mind necessary for making a will is the ability to comprehend the nature, amount, and value of one's property in a general way, the number and the claims of one's relatives, and the effect of the will. Any form of mental weakness or delusion which affects this ability or affects a person's relations with his family at the time of making his will, will render him incapable of making a valid will. No other form of mental weakness and no other delusion will affect a person's ability to dispose of his property, and a will made during a lucid interval in insanity will be valid.

§ 435. Restrictions on the Power of Making a Will

The power to leave property by will is derived from the law and depends solely on the law for its extent and enforce-

ment. This power is not a natural right, as is the right of living men to own and control property created by their labor. When brain and hand no longer act, the natural right ceases and the right to control property is only that given by the law.

Before property can be distributed among those to whom the deceased wished it to go, his debts must first be paid. Debts are always paid, if possible, out of the personal property, so that if there is no provision in the will to prevent this, the result may be that those to whom personal property has been left may get nothing, while the gifts of real estate may be carried out in full.

In most states there is some restriction on the right to leave property to charity when one dies leaving a husband, wife, or children surviving. In New York, if the deceased person leaves husband, wife or child, not more than fifty per cent of the property can be left to charitable organizations.

As a general rule, where a woman marries after making a will, or where a man marries and has children, any will previously made is revoked and a new one must be made. This is to protect the claims of the husband, wife, or children, as the case may be. A man may cut off children from sharing in his estate, but his intention to do so must be made evident. In some states it is not possible for a woman to cut off her husband from some share in her property, even by a will expressly stating such an intention.

As a usual rule where some of the children are born after the making of the will, the whole will does not fail, but the share, which the children would have had, had there been no will, (see §§ 431 and 432) is taken out of the property first and given to them, and then the remainder of the property, both real and personal, is divided in accordance with the terms of the will.

Notes:

1. If you wish to cut off any of your children from a share of your property, it should be stated in plain terms and the reason should be given.
2. A devisee is one to whom real estate has been left by will.
3. A legatee is one to whom personal property has been left by will.
4. An executor is a person or trust company named in a will to carry its provisions into effect.
5. A woman must make a new will in case of subsequent marriage, or a man in case of subsequent marriage and the birth of children.
6. By setting aside a certain amount of property for division among any children that may be born after the making of the will, or expressly providing that they are not to share in the property, the upsetting of the will by their birth may be avoided.
7. A provision may be inserted in a will that in case debts to a large extent have been paid out of the personal property, those to whom the real estate was left shall contribute pro rata, so that each person shall get a proportionate amount of the property left him whether realty or personalty.

§ 436. General Form for Wills

There are certain formalities which must be complied with in all wills. The easiest way is to remember *how* they are to be complied with. The first paragraph of a will should contain the statement that it is the "*Last Will and Testament*" of the person making it, giving his name and address in full (including county and state) and the date on which it is made. It should also state that the testator (the person making a will, revokes all previous wills.)

The following is a brief form of the correct commencement of a will:

I, John Smith, of 206 Lexington Avenue in the Borough of Manhattan, City, County, and State of New York, revoking all wills by me heretofore made, do hereby publish and declare this my Last Will and Testament on this 1st day of February, nineteen hundred and twenty, in manner and form following:

The will must be signed and sealed at the end by the testator. He must sign it in the presence of witnesses—it is wisest to have at least four, unless you know how many are required in the particular state, as the laws of the various states differ as to how many there must be—and must declare to them that it is his last will and testament and ask them to sign it as witnesses. The witnesses must sign the will in his presence, and must also give their addresses. The law provides for a heavy fine if they omit the latter. In no case must the witnesses be legatees or devisees under the will. As witnesses are expected to survive the testator, they should be younger than he is.

The best way is to end the will with what is known as an attestation clause, stating all of these things. This will remind the maker of the will of what is required and when the will comes to be probated will be regarded as showing that it was properly executed unless testimony is introduced to show that the statements were not actually complied with.

The following is a correct attestation clause. It must follow immediately after the testator's signature:

Signed, sealed, published, and declared by the above-named testator, John Smith, on the 1st day of February, nineteen hundred and twenty, as and for his Last Will and Testament in the presence of us who, at his request and in his presence and in the presence of each other, have here-

unto subscribed our names as witnesses the same day and date.

The words "published and declared" refer only to the statement made to the witnesses before asking them to sign.

In New York the letters L. S. are sufficient for a seal. In some states a little red wafer, carried by any legal stationer, is used.

The will of the late Edward H. Harriman which follows is brief and yet contains everything the law requires:

I, Edward H. Harriman, of Arden, in the State of New York, do make, publish, and declare this as and for my last will and testament, that is to say:

I give, devise, and bequeath all my property, real and personal, of every kind and nature, to my wife, Mary W. Harriman, to be hers, absolutely and forever, and I do hereby nominate and appoint the said Mary W. Harriman to be executrix of this will.

In witness whereof I have hereunto set my hand and seal this eighth day of June, in the year nineteen hundred and three.

EDWARD H. HARRIMAN. (L. S.)

Signed, sealed, published, and declared by the testator as and for his last will and testament, in our presence, who, at his request, and in his presence, and in the presence of each other, have each of us hereunto subscribed our names as witnesses.

CHARLES A. PEABODY,
13 Park Avenue, New York.
C. C. TEGETHOFF,
291 East Seventeenth Street,
Flatbush, L. I.

In arranging a will, it is always usual to put the large gifts first and the small bequests at the end.

§ 437. Kinds of Wills

Nuncupative Wills. Soldiers and sailors when about to die in battle may make their wills leaving personal property by word of mouth in the presence of witnesses. This is known as a nuncupative will. It is not a safe method to employ.

Holographic Wills. In some states, a will entirely in the testator's own handwriting does not need witnesses. The handwriting is sufficient to prove it. This is called a holographic will. It is very much safer to have witnesses. The will is good only in the state and not if it affects real property outside the state.

§ 438. Executors

What Powers to Give Executors. The executor or executors named in a will may be dead or mentally incapacitated at the time of the person's death or they may refuse to serve. It is wise to provide an alternative or several alternatives, or to make a trust company executor.

In case some of the executors refuse to serve, the will should provide that the others may act without them. To avoid future difficulty, the will might also state that in case of a dispute a majority may decide any matter.

Executors should be given in the will the power to sell real estate if it is necessary in order to pay debts or to carry out the provisions of the will. Otherwise, where personal property is insufficient to satisfy the gifts which were made by the will, the executors will have to get an order from court before real property may be sold for the purpose.

In order to induce an executor to serve, the will should relieve him from liability for anything except dishonesty.

§ 439. Trustees

If it is necessary to hold property for any length of time before final disposition, trustees must be appointed, or the executors may be authorized to act as trustees.

In naming trustees, it is also wise to make provisions for an alternative in case any trustee named cannot serve. If there is an enforceable trust the court will, on application, appoint a trustee to take charge of it, but if the maker of the will wished to exercise his own judgment he should name his choice.

Unless the united judgment of all the trustees is desired on matters connected with their trust, if there are several trustees, the will should provide that a majority may act in any matter. Trustees should always be given powers to sell any of the property from time to time when it becomes necessary to protect the estate, and to reinvest the proceeds.

As the range of investment which the law allows a trustee is very limited, it is a good idea to provide in the will in what kinds of property, stocks, bonds, etc., he is to be allowed to invest. Trustees may be given the power to appoint their own successors in any way that the person making the will thinks fit.

At the present time it is the better practice to name a trust company as trustee instead of private persons.

In many cases consideration of the circumstances will lead to the appointment of a trust company, or a bank entitled to exercise fiduciary functions, to act as executor or trustee, for reasons so generally accepted that they are now almost axiomatic. A few of these reasons are:

1. The financial responsibility of the trust company.
2. Its continued existence: the individual named as executor may die—a corporation has unlimited existence, and the maker of the will, therefore, is assured that the executor of his choice will be living and competent to act.
3. Accumulated experience: the individual may act as executor once in his lifetime—the corporate

executor or trustee, whose business it is to act in such matters, is constantly accumulating experience which no individual can hope to possess.

4. Financial judgment: the directors and officers of a well-organized corporation, through the general transaction of their business, are usually far better able to invest funds and handle business matters than an individual.
5. An impartial viewpoint: a corporate executor is not concerned in family disputes, has no interests to serve except the execution of the plain directions in the will and the protection of the interests of the beneficiary. It cannot profit through its acts other than by the commissions which it receives by law.

"Whoever is appointed executor, all these factors should be borne in mind. The executor selected should be one who reasonably may be expected to be living at the time the will goes into effect, should be responsible, of good judgment, and absolutely impartial in the exercise of the great trust committed to him."

§ 440. Trust Estates

A trust is a fiduciary relation. It is usually created by will or deed. Two or more trustees are usually appointed. When one dies the other has power to act unless the instrument provides for a successor to be appointed. When trustees are directed or authorized to act, all must join unless the deed of trust provides that a majority can act.

A trustee's powers will depend on the instrument creating the trust. Unless specifically authorized he cannot sell or mortgage the trust property.

Trusts, trustees, and trust estates are all under the con-

trol of courts of equity. For any abuse of authority by a trustee the remedy would be in a court of equity. If necessary the trustee will be removed and a successor appointed. If circumstances make it difficult or impossible for the trustee to decide as to the proper action to take, he may ask the court to make an order in the matter. This will relieve him from responsibility.

§ 441. Statutes

The form in which a will of real property must be drawn, as well as the disposition of the property by its means, is governed by the law of the state where the property is located.

A will of personal property must be drawn up in accordance with the law of the state of which the testator is a resident at the time of his death.

Any will must therefore comply with the laws of the state of which the testator is a resident and with the laws of any other states in which real property devised by the will is situated. If the precaution is taken to have at least four witnesses, it will satisfy the law of most of the states of the Union.

But in order to find the regulations governing the manner in which property may be left, the real property law of the state in which the property is located and the personal property law of the state in which the testator resides must be consulted.

Death of Beneficiary. In most cases a general clause is added providing that all the residue of the property goes to some particular legatee. This portion so left is called the "residuary estate." In case of the death of any beneficiaries before the death of the testator, the legacies would lapse, except in the case of legacies to children or to son-in-law or to daughter-in-law, whose children would inherit after them. This lapse may be avoided by leaving the property to the

beneficiary and if he die before the testator, to his heirs, his wife or his next of kin, or to another beneficiary.

As many other beneficiaries may be named as the testator desires. In case the property is to be given in this way it is necessary to provide, before using the words of gift, that the person is to take the property only if he is living at the time, and if not that it is to go to someone else.

The following is the proper way to make such a provision:

If Henry Adams shall be living at my death, then I give and devise to him and his heirs forever (description and location of property), but if the said Henry Adams shall die before me, then I give and devise the said property to James Green and his heirs forever.

Or,

then the said property shall be added to and form a part of my residuary estate.

In case of a trust the same trustee may be named, and simply directed to pay the income over to the second legatee, in case the first beneficiary is dead at the time the will takes effect.

If the residuary estate is not disposed of by will, it would be distributed as if there were no will according to the laws of the state.

It is said to be the custom at lawyers' dinners to toast the man who makes his own will, as such a course usually results in much profitable litigation.

Notes:

1. If possible, avoid complex and long-term dispositions of property.
2. Employ a competent lawyer and make sure that he knows what property you have and what you wish done with it.
3. If you change your residence after making a will, be sure to see that it complies with the law of the new state of residence or else make a new will.

A simple will leaving property outright to members of your own family might safely be drawn in accordance with the rules laid down here, but, unless the disposition of the property is very simple, as in the case of the Harriman will, the best thing to do is to consult a reliable lawyer. It is impossible to give all the details of the local laws relating to wills in a work of this scope.

§ 442. How to Dispose of Real Property

There are various ways in which a person may dispose of his real property by will after his death. He may give it to someone outright; or to one person for life, and absolutely to another at the first person's death; or to several people in succession for life, and to another absolutely on the death of the last person.

The proper form of words for giving property outright is:

I give and devise (description and location of property) to my nephew, John Smith, of Arlington, New Jersey, and his heirs forever.

The proper form of words to give property for life is:

I, Mary Green, give and devise (describe property fully) to my brother, Henry Adams of Syracuse, New York, for his life, and upon his death I give and devise (naming the property) to my son James Green and his heirs forever.

It would be perfectly proper to direct that on Henry Adams's death the property shall go to another (in some states to several others) for life before giving it finally to James Green. In New York there could be only two persons to have it for life altogether, and if more were named, James Green would get it on the death of the second. The persons named must, however, be living at the death of the person making the will. One could not leave property for life to a child unborn at the time of one's death. If no one is mentioned to whom

the property is to go at the conclusion of the last life estate, it will then go to the legal heir or heirs. (See § 431.)

The property may be given to one person for the life of another. In that case the will would read thus:

I give and devise (description and location of property) to my brother Henry Adams, during the life of my son James Green, and upon James Green's death I do give and devise said property to my grandson Samuel Brown, to him and his heirs forever.

If Henry Adams should die before James Green, the right to make use of the property during the rest of James Green's life would be regarded as personal property, and Henry Adams could leave it by will or the law would dispose of it as explained in § 432. Upon James Green's death the property would go to Samuel Brown outright.

Property, as a usual rule, could be left in this way only during the life of one person.

But the proceeds of property may be accumulated for a child and not paid over until he becomes of age. A good direction for an accumulation would be as follows:

I hereby give and devise (description and location of property) to my grandson Samuel Brown, to him and his heirs forever, and I direct my executors to hold the said property and to accumulate the rents, issues, and profits thereof, until my said grandson shall come of age, and at that time to pay the same over to him.

It is also possible to leave property to one person or to a trust company in trust for another. The trustee in whose care it is left manages it and pays over the proceeds to the person to whom they were given, and accounts to the court for his dealings with the trust property.

The proper form of words to create a trust is:

I hereby give and devise to Henry Adams (name and description of property), to him and his heirs and succes-

sors in trust, to collect the rents, issues, and profits and to pay them over to James Green.

James Green cannot dispose of the property itself but only of the proceeds. Henry Adams cannot make use of the proceeds, but may do all necessary things with reference to the property, such as leasing it. He may be held accountable, however, by James Green for any breach of trust or negligence in his management.

In order to be sure as to just what can be done with property, it is necessary to consult the real property law of the state where the property is located, as the provisions vary slightly in the different states.

The creation of trusts is highly technical and should not be attempted save under the advice of a competent lawyer.

If you desire to leave real property to charitable organizations, including schools and colleges, it is necessary to consult the law of the state where the property is located to find out whether you can so leave it, and, if so, with what formalities you must comply; and the law of the state where the organization is located to see whether it can take the property.

Note:

1. In devising real property it should be described so completely that it will be certain as to what is included; and to avoid mistake its location should be given definitely.

§ 443. How to Dispose of Personal Property

In disposing of personal property, one may either leave a certain amount of money to a person, or may provide that some specific piece of personal property, such as a piece of jewelry or an article of furniture, or some special stock or bonds, shall be given him.

Where a specific piece of property is given to anyone, any

debts will have to be paid out of the other personal property first. If there is not enough of this other personal property to pay the debts, the specific property will be sold.

On the other hand, where amounts of money are left to particular persons, any personal property not specifically given to anyone will be sold in order to get funds to pay the legacy. The debts will be paid out of this property first, and if there is not enough of it to pay both the debts and the legacies, those to whom money has been left may get nothing.

The proper form of words to use in making a gift of personal property by will is:

I give and bequeath (description of the personal property) to so-and-so.

The will may provide that in case the person to whom the gift is made is dead at the time the legacy takes effect, another person is to have the property, or that the gift shall be added to and form a part of the residuary estate. Or the will may provide that the person named is to have the property only under certain conditions, and in case these are not fulfilled it is to go to someone else.

Personal property may be left in trust; then the trustee has control of the property and pays over the income as described in § 440.

Before making a will of personal property, the testator should consult the personal property law of the state where he resides, and if he moves to another state at any time his will must be changed to conform to its laws.

Note:

1. Generally people err who tie up property for long periods after they have gone. It is a form of egotism that leads a man to try to impose his control on those he leaves behind.

§ 444. The Residuary Clause and Its Uses

It frequently happens that a person has more property when he dies than he had at the time he made his will. Or it may happen that the person to whom personal property has been left dies before the will takes effect, thus leaving that property undisposed of. A convenient way of providing for either of these contingencies is to make a general clause at the end of the will covering all such property and providing to whom it shall be left.

This is called the "residuary clause" and the person designated is called the "residuary legatee." It is usually expressed in this way:

All the rest, residue, and remainder of my estate I give, devise, and bequeath to so-and-so.

This covers both real and personal property that may have been left undisposed of when the time comes to put the will into operation. It is usual to leave the residue to near relatives or to the principal beneficiary of a will.

If the residue were not left specifically, it would have to be distributed as provided by the state laws governing distribution.

Note:

1. The residue of an estate may amount to a considerable sum, and it is important to make careful disposition of it in the residuary clause.

§ 445. What to Do With the Will

"When a will is made, in order to avoid a possible long and trying search for it, it is advisable to file it in a sealed envelope with a bank or trust company in the state; or it may be deposited for safekeeping with any County Clerk or Surrogate, or with the Register of Deeds in the county in which

it was made. It is generally a great inconvenience to have a will filed in the maker's safe-deposit box, for when a person dies, no one is entitled to have access to his safe-deposit box except his legal representatives duly appointed by the court. Who such representatives are cannot be determined until the will is found. In order to obtain the will, it is therefore necessary to get an order from the court permitting the opening of the safe-deposit box for the purpose of discovering the document."¹

REVIEW QUESTIONS

1. Who can make a will? What degree of mental weakness would invalidate a will? Is it easy "to break" a will?
2. Is the right to make a will a natural right? What restrictions on the right are found in your state?
3. What is the rule as to paying a decedent's debts? If the beneficiary dies before the testator, what happens to the legacy? How may this be avoided?
4. What number of witnesses is required in your state? When, where, and how must witnesses sign a will?
5. What is a will? What is a nuncupative will? What is a holographic will? Draw a brief form of will leaving all property to wife. Why is it safer to have a competent lawyer draw a will?
6. What are the functions of an executor? Of an administrator? What are the advantages of having a trust company act in these capacities?
7. Does the law of a place where the will is made affect it? If a testator lives in Ohio and owns land in Pennsylvania, which law would govern his will?
8. What would be done with personal property owned by a testator but not mentioned in his will?
9. If an executor is sole legatee of personal property, does he own it? What defines the powers of trustees under a will?
10. What is a residuary clause? A residuary legatee?

¹"Why You Should Make a Will," Guaranty Trust Company of New York.

CHAPTER LXV

HOW TO CHANGE OR TO REVOKE A WILL

§ 446. How to Change a Will

If it is desired to change a will, changes should not be made in the instrument itself. Any erasures or interlineations are likely to make the will invalid. No changes or alterations will take effect unless it can be proved that they were there when the will was originally signed. If there are any erasures or interlineations in a will, the attestation clause should state that they were made before the will was signed.

The proper way to change a will is by drawing up another paper called a codicil in the same form as the will itself except that it states that:

I, John Smith, of 206 Lexington Avenue in the Borough of Manhattan, City, County, and State of New York, on the 3rd day of January, nineteen hundred and twenty, do hereby publish and declare this codicil to my Last Will and Testament which is dated February 4, 1919, and in manner and form following:

The codicil must be signed, sealed, and declared to be such in the presence of witnesses, in the same way as the original will, and these witnesses must be asked to sign and must state their addresses.

If it is desired simply to add something, the codicil proceeds in the same way as the original will. If it is desired to make a change in any provision of the original will, the paragraph in which the provision occurs should be referred to. For instance:

Whereas in paragraph two of my said Last Will and Testament, I did give and devise certain real property to my son, Peter Lane, I do now revoke said gift and do hereby give and devise the said real property to my nephew, Richard Lee, to him and to his heirs forever. . . .

§ 447. How to Revoke a Will

A will may be revoked only by the action of the testator himself. He may direct someone else to perform the actual operations for him.

No destruction or other unauthorized interference by any other person will prevent the will from taking effect. If the will is partly or entirely destroyed, it may be proved by the testimony of witnesses, or of the lawyer who drew the will.

If the testator attempts to alter a will by making erasures or interlineations, he may revoke it without intending to.

The proper way to revoke a will is for the testator either to destroy or to cancel it by making some mark or tear in it, or by making a new will stating that the former one is revoked.

A codicil may be revoked in the same way. If a codicil is to be revoked, the whole will had better be executed again, since by revoking a codicil the clause affected in the original will may not be revived.

A radical change in circumstances, such as the birth of issue after testator's death, may have the effect of revoking his will unless the will states that it should not be revoked by such changed conditions.

The safest way to revoke a will is to destroy it entirely and make a memorandum of the fact. Otherwise it may be supposed to be lost or wrongfully destroyed by some unauthorized person. If it remains in your possession during your lifetime, and after your death is proved by your executors or administrators, and a later will is lost, it may take effect. Provision should always be made in the first clause of a will that all former wills are revoked.

REVIEW QUESTIONS

1. How should a will be changed?
2. May any of the formalities necessary to the execution of a will be omitted in the execution of a codicil?
3. How should a will be revoked?
4. If a will is accidentally lost or destroyed before or after the death of the testator, and the lawyer who drew the will has a copy, can it be probated?
5. If a codicil is revoked, why should a new will be made?

CHAPTER LXVI

OTHER WAYS OF DISPOSING OF PROPERTY AFTER DEATH

§ 448. Deeds of Trust

By making a deed of trust it is possible to avoid the necessity of drawing a will and incidentally the necessity of settling up the estate. Such an instrument which conveys the property to a trust company or other trustee in trust, provides that the person deeding the property is to have the use of the profits of his own property during his lifetime, and then disposes of it after his death to the various persons whom he selects as beneficiaries.

By such a deed of trust the person may make himself trustee for his life and thus leave the management of the property in his own hands. The objection to such a disposition is that it makes it difficult to sell any of the property, since purchasers will usually want a release from the persons who are to take the property after the trustee's death.

This may be avoided by providing in the deed of trust that the person making it reserves the right to revoke or to change the whole or any part of it at any time. He may then revoke and change part of it whenever he wishes to dispose of any property during his lifetime. Of course, there is the trouble and the expense of drawing a new deed or making amended deeds whenever this is done. If the person owed money or afterward got into debt, such a deed of trust would be of no effect. Any arrangement of the kind would have to be worked out under competent legal supervision.

§ 449. Gifts in View of Death

A person who believes himself incurably ill and at the point of death, may make gifts to take effect upon his death. If the testator should recover, the gifts would not take effect.

In order to make gifts of personal property effective, the property itself should be handed to the person to whom it is to be given either by the testator himself or by someone else at his direction, if possible. If the gift consists of a bulky article, something to represent it may be given. For instance, the key of a trunk or of a chest might be handed over. The gift of a savings bank book amounts to a gift of the bank account. A gift may be described as a gratuitous transfer of personal property.

Note:

1. Property given in view of death must be actually handed over. A promise to make a gift is not a gift *causa mortis* and cannot be enforced.

REVIEW QUESTIONS

1. How may a deed of trust be made so as to give the donor the use of the property during his life and have it pass to his beneficiary when he dies?
2. Would such an arrangement prevent creditors from collecting their claims?
3. What is a gift? What is a gift *causa mortis*? Can a promise to make a gift be enforced? Why not?

CHAPTER LXVII

THE SETTLEMENT OF AN ESTATE

§ 450. If the Deceased Person Left a Will

If the deceased person left a will, the first thing to do would be to probate the will. If the deceased left any personal property, the will must be probated in the state of which he was a resident when he died. Probating a will means that it must be presented and proved in a special court called a probate, surrogate's, or orphans' court. Any person designated in a will as executor, devisee, or legatee, or any other person interested in the estate, or a creditor may ask that a will be probated.

Notice must be given of the probate to everyone who receives anything under the will, and to everyone to whom the law would have given the property had there been no will (see §§ 431 and 432). This is expressed sometimes as "every person interested," which would include every person entitled to share in the estate or the proceeds thereof, as husband, wife, legatee, next of kin, heir, devisee, assignee, grantee, or otherwise. Usually the procedure incident to probate requires the aid of a lawyer.

The witnesses to the will itself, or at least some of them, are always examined as a matter of formal proof before admitting the will to probate. If there is a contest, the testimony of the lawyer who drew the will and of anyone familiar with the circumstances may be given to prove it, or to prove the testator's mental capacity at the time it was drawn. It is the duty of the person offering the will for probate to obtain the necessary testimony.

If the probate of the will is contested, those who oppose its admission to probate will be heard and sometimes contested will cases run on to great length and cost. After both sides have been heard and the case has been argued, it is decided by the surrogate or probate judge, who will, unless there is good cause for rejection, make a decree admitting it to probate as a valid will.

When there is no contest, all concerned sometimes consent to the probate to save time and the will is admitted forthwith.

An executor is an individual or a trust company which by designation of a will is to carry it into effect. If the will is admitted to probate, the executors or executor named, if competent, will receive letters testamentary from the court. "Letters testamentary" is the legal term for the instrument issued by a probate court authorizing an executor to carry out the provisions of a will. A minor, an alien, a criminal, or anyone mentally or morally deficient would not receive letters. An executor derives his powers from the will, but cannot act until he receives letters from the court of probate.

Where a long contest over the will is likely, a temporary administrator *pendente lite*, i.e., pending the litigation, is appointed. It is his duty to attend to all matters concerning the estate that would suffer by delay. A temporary administrator may be appointed in any case when it is necessary.

If personal property of the deceased is situated in other states, it may become necessary to take out letters of administration in those states also. These are called "ancillary letters." In every state the detail of settling an estate is regulated by statutes which should be consulted.

If the will does not provide that the executor is to serve without giving bond, he will in many cases be required to give a bond in double the amount of the property belonging to the estate and with a certain number of sureties, before letters will be issued to him. In New York this is a matter of discretion

with the surrogate. It is the duty of the executor to take the official oath and to file his bond promptly.

One of the first claims to be paid will be the inheritance tax if there is one. Each state allows a certain amount of exemption of property left to near relatives. The statutes should be consulted to find out what their rights are.

It will usually be necessary to have the property appraised by one or more disinterested appraisers to ascertain the amount of the inheritance tax. Unless the will provides that the inheritance tax is to be paid out of the estate, it must be paid out of the property going to each individual beneficiary. If the beneficiary does not want property sold to pay the tax, he may pay the tax out of his own pocket and take the article left him as it is.

An executor is not bound to serve and where the executor named in the will fails to qualify, the law appoints the person most interested in the estate, usually a relative, as an administrator *cum testamento annexo* (with the will annexed). After his appointment his duties are precisely those of an executor. He sees that the provisions of the will are carried out. Commissions based on the amount of estate actually received and paid over are allowed by law.

§ 451. If the Deceased Person Did Not Leave a Will

If there was no will the facts of death and intestacy must be proved and then the nearest relative entitled to a share in the estate (see §§ 431 and 432) may be appointed administrator. Where several persons are thus entitled, such as children, brothers and sisters, nephews and nieces, etc., men will be preferred to women, and unmarried women to married women. All of the persons so entitled may be appointed administrators together, or, by the consent of all who are in any way interested, an outside person may be appointed.

If no one else takes out letters of administration and there

are any debts or claims against the estate, a creditor or a claimant is entitled to letters of administration.

An administrator will always be required to give bond with sureties in double the amount of the property belonging to the estate, to guarantee that he will faithfully perform his duties. His commission is the same as that of an executor.

The duties of an administrator are to advertise for claims against the estate, to pay those which seem proper and to reject the others, leaving them to be settled by suit; and finally to distribute the property to those persons who are entitled to it according to law.

The administrator should at once ascertain and settle all the inheritance taxes and make claims for exemptions due anyone interested in the estate. As a usual rule, the estate must be appraised by one or more disinterested appraisers for the purpose of ascertaining the inheritance tax.

The executor or the administrator is bound, if assets will permit, to perform the contracts of the deceased in so far as they do not call for the personal qualities of the deceased. If he continues a business in which the deceased was engaged, he must account for the profits, if any, but must himself assume the losses of a continuance in business, unless the will provides that such possible losses may be paid out of the estate.

If the property is located in several states, it may become necessary to take out letters of administration in each one. Generally the courts prefer to give such letters to a resident of the jurisdiction where they are granted, but a relative would have a right to letters even in a foreign state if he were entitled to the property by the law of that state.

Notes:

1. An administrator should be careful to get vouchers or releases from those to whom he distributes the property under the law.

2. The advantages of administration by a trust company are considerable.

§ 452. Settlement Without Administrator

When there are no creditors, the heirs or next of kin may, by private agreement, settle the estate without taking out letters of administration.¹

Each one who would be entitled to a share under the laws of the state should give a release of his share somewhat as follows:

I, the undersigned, being entitled to a certain share in the estate of my father, James Smith, late of Ithaca, New York, do hereby in consideration of (here specify money or property received from the estate) release and relinquish all my right and interest in and to the said share.

Witness my hand and seal this 1st day of February, 1920.

(Signed) JOHN SMITH (L. S.)

Attest:

IRVIN REYNOLDS.

If there are stocks and bonds which must be transferred on the books of the respective companies, it will be necessary, as a rule, to take out letters and to furnish the companies with certificates of their having been issued. If money belonging to the deceased was on deposit in a bank, it could not be withdrawn except by a duly appointed executor or administrator.

In difficult situations, executors or administrators may ask the court that appointed them to instruct them or to make an order in the particular matter that would relieve them from personal responsibility.

Where there are several executors or administrators, the fact that one or more becomes incapable does not prevent any survivor or survivors from completing the settlement of the estate.

¹ *Herrington v. Loroman*, 22 App. Div. 266; *Ledyard v. Bull*, 119 N. Y. 62, 72; *Chauvit v. Ives*, 173 N. Y. 192, 198.

Where the executors or administrators do not complete the settlement of the estate, the court will appoint an administrator *de bonis non*, that is, for the goods not administered, to complete the work.

REVIEW QUESTIONS

(The answers to these questions should conform to local statutes.)

1. What do you understand by probating a will? Where is a will proved? Who must be notified?
2. What is the function of an executor? Whence does he derive his authority? Explain fully. What are letters testamentary? What are letters of administration? What does an executor do to qualify?
3. What is an administrator *pendente lite*?
4. When can an estate be settled out of court?
5. When there is no will, what is the usual procedure? In such a case who will be appointed administrator?
6. What are the general duties of an administrator?
7. What are the responsibilities of an executor or an administrator, if he continues a business belonging to the estate? Has an administrator any authority outside of that given him by the court?
8. To whom is a petition for appointment of an administrator addressed?
9. What are the general duties of an administrator *pendente lite*?
10. What is done when property belonging to the estate is in another state?
11. What is an administrator *de bonis non*?

CHAPTER LXVIII

DUTIES OF EXECUTORS AND ADMINISTRATORS

§ 453. The Procedure of Administration

No one is compelled to act as executor or administrator of an estate. If the person named in a will does not wish to act or cannot do the work necessary to settle the estate, he should not accept. In case an executor declines, the court of probate will appoint some other person or a trust company to act.

Any person named as executor in a will may file the will for probate if some other interested party has not done so already. An executor may pay the funeral expenses before the will is proved, but it is usually unnecessary to do this. He may also do anything that is really necessary for the preservation of the estate. It is not safe to do more than this, for until the will has been proved and letters testamentary have been issued, the executor has no authority for further action.

If there is more than one executor they can act independently except in the sale of real estate, if they should be authorized to sell real estate.

§ 454. Inventory

After being duly appointed, and qualifying and receiving letters testamentary, or if there is no will, letters of administration, an inventory should be made. The inventory must contain a particular statement of all the property belonging to the deceased that the administrator or executor has been able to discover, with such details as indicate its value for collectibility. It is not confined to property in the state of

administration. It should not include real estate, unless by the will it has been made part of the general estate. The assets of the partnership should not be named, but the net balance of the decedent's interest, including the good-will, the trademarks, and the secret formulae should be entered. Any rents payable at the time of the decedent's death would be included, and if any other personal property should come to the knowledge of the administrator or executor, this should be appraised and filed in an additional inventory. Sometimes this is excused in the will. Unless this is the case, it is necessary to take an inventory and then have an appraisement made.

Thereafter, state or federal transfer or inheritance taxes should be paid from the first moneys that are realized. Taxes or claims due to the government are preferred and have priority over everything else, except the expenses of the funeral and last illness.

The debts to the estate should be ascertained and steps should be taken to collect them promptly, bringing suit if necessary. It is the duty of the executor to collect all claims that the estate has against other parties, and to take over all the personal assets of the estate and to turn them into cash. He is authorized to do this at his discretion to the best possible advantage.

§ 455. Advertising for Claims

All claims against the estate should be ascertained, and this is usually done by advertising and notifying the public generally of the fact of administration and that all legal claims should be filed with the executor or the administrator.

It devolves on the executor or the administrator to pay the debts of the estate, but it is necessary first to make sure that the estate is solvent and can pay all obligations and that he can command funds enough to meet these claims. Unless he is sure of this he should not pay, for if he did, and there

was a deficit, he would be personally responsible. For this reason the law allows him one year before he can be compelled to pay any claims or legacies.

§ 456. Paying Legacies

Specific legacies of personal property may be delivered to those entitled to them when it is ascertained that there are funds enough to pay all obligations. Generally, if the executor pays any legacies before the expiration of the year he does so at his own risk and would have to make good if the estate proved insolvent. If, however, by the terms of the will the executor is directed to pay any legacy before the end of the year, he may require the legatee to give bond to refund in case of any deficiency of assets to meet debts.

When the debts are paid he may then pay the general legacies. The same rule holds good as for the debts. He must not pay any legacy in its entirety until he is sure he has enough to settle with all. If the estate did not net enough to pay all general legacies it would be the duty of the executor to scale them down equally. Where an estate is solvent and there are articles that have personal associations, the next of kin will often arrange to distribute these among themselves, notifying the executor to deduct a proper amount from the legacies or from the amounts that would come to them under the distribution.

§ 457. Caring for Funds

All funds which belong to the estate should be kept in a special bank account, and should not be mingled with the executor's own funds or deposited in his own account. If they are deposited in a reputable bank in the name of the estate, the executor will not be responsible if any are lost. Checks and any other instruments to be signed by the executor should be first signed with a rubber stamp as follows:

The Estate of Hiram Randolph,
By———, Executor.

Any valuable papers or records coming into the possession of the executor should be placed in a safe-deposit box, and if there is more than one executor or administrator all should have access to the instruments pertaining to the estate.

§ 458. An Executor's Authority

Executors have no authority to make any new contracts. It may be their duty to fulfil existing contracts entered into by the deceased, but not to make new contracts or to engage in any new business. An executor would be authorized to employ an accountant if necessary, or an agent if necessary, and he is allowed to employ counsel. The executor is liable for the fees of counsel but usually these are allowed him on settlement. An executor may incur any expenses necessary to preserve or care for the estate.

He will have charge of all the personal property belonging to the estate but not of real estate, unless acting under a will that directs an executor to sell real estate, or unless ordered by a court to sell real estate in order to pay debts. If the personal estate will not cover all claims against the estate in full, an order to sell such estate would be made.

He may sell stocks and bonds, etc., and reinvest the proceeds in such investments as the state allows executors and trustees to make. Unless the stocks and bonds held by the estate are of this class, it would be safest for the executor to do this. He has no right to pledge any property in his care but has authority to sell it at his discretion.

An executor would have an authority to carry on a sole business conducted by the deceased. An executor would have no rights in a partnership business unless authorized by will. If he is elected to continue a partnership business, although not

so authorized by the will, he would be primarily liable for any losses that might occur. If he were specifically authorized to do this in the will, and he lost money, he would have a claim against the estate for indemnity.

An executor can compel the survivor of a partnership or the survivors to pay out the interest of the testator in a reasonable time. The value of the good-will and of the trade-name would have to be accounted for as part of the partnership assets.

REVIEW QUESTIONS

1. What are the general duties of an executor or an administrator?
2. What may an executor do before appointment? What is meant by qualifying?
3. What evidence of his authority must an executor have?
4. Under what conditions may a safe-deposit box company give access to a box to an executor or an administrator?
5. After appointment, what are the next three steps? In an executor's inventory should real estate be included? Property in other states? How state decedent's interest in the business and property of a firm? Give rules as to inventories and state what they must contain.
6. What claims are preferred and in what order?
7. What course shall executor take on a claim believed to be invalid?
8. Give the order of payment in the distribution of the estate of a decedent in your state.
9. Within what time must an executor pay legacies in your state?
10. Has the executor any control of the real estate?
11. As between the executors and the heirs, which is entitled to:
 - (a) Real estate of a partnership of which deceased was a member?
 - (b) A lease for twenty-one years?
 - (c) A right of way?
 - (d) Fixtures attached to decedent's real estate and used for trade purposes?
12. What is an executor's duty in regard to stocks and bonds?

13. What is the duty of executor of partner as to continuance of business of partnership?
14. Has an executor a right, ex officio, to examine the books of a partnership?
15. Within what period can the executor compel surviving partners to pay the interest of testator?
16. What is the duty of an executor in regard to insuring property in his custody? Has the executor of a solvent estate an insurable interest in the real estate of decedent?
17. Is a judgment against an executor a lien on real property of the estate?
18. If an executor has been ordered to pay a legacy but fears he will not have enough to pay debts, how may he protect himself?
19. To what class, realty or personalty, does rent of real estate belong, if it become due before decease but is collected after?
20. Decedent's mortgaged property is foreclosed after decease. Surplus, turned over to estate, belongs to what class of property?
21. If a decedent had contracted to sell real estate, and the purchase money remains unpaid at his death, to what class of property does this unpaid purchase money belong?

CHAPTER LXIX

QUESTIONS BETWEEN LIFE TENANT AND REMAINDERMAN

§ 459. How Conflicting Rights Arise

Some difficult questions in the settlement of an estate come up in the conflict of interest between the life tenant and the remainderman. If by the terms of a will \$40,000 in stocks and bonds and a well-located store building are directed to be held in trust to pay the income in quarterly instalments to the testator's daughter, Ethel Cole, and at her death to be sold and distributed to all his children or their issue *per stirpes*, in such case Ethel Cole, the daughter named, would have the benefit of a life estate in both the real and the personal property with the remainder to the heirs of the testator.

The following questions might arise:

1. *Profits on Reinvestments.* It may be the duty of the executor to sell the stocks and bonds and reinvest the proceeds. In doing this there might be a profit. If so, that profit is held to belong properly to the corpus of the estate and no part would go to the holder of the life interest. She would, however, benefit by the increased value of the new investments on which she would have the income for the term of her life.

2. *Stock Dividends or Unusual Cash Dividends.* Again, on some of the stock there might be a stock dividend or an exceptional cash dividend. In such a case, the general rule in this country is that if part of the value so apportioned accumulated before the life interest began, such part would be held to be principal and not income and would be reserved for those entitled to the remainder. The life tenant mean-

while would be entitled to any interest arising from this amount. That is, the court will inquire as to the time when the fund was earned or accumulated, and it will be divided according to whether it accumulated in the lifetime of the testator in which event it goes to the remainderman, or after his death in which event it goes to the life tenant.

In Massachusetts, Georgia, and Rhode Island, a different rule prevails, and all cash dividends whether large or small are regarded as income and belong to the tenant for life. Stock dividends, on the contrary, are regarded as principal and are held for those entitled to the remainder. The life tenant would, of course, have the income until the life estate terminated. This last rule is simple but at times unfair, and the courts do not always adhere to it rigidly.

3. *Subscription Rights.* Another case is where a corporation issues new stock or bonds and gives to the present stockholders the right to subscribe at par or at less price than outsiders. In some corporations these rights are very valuable. It has been held that the value of the right would belong to the corpus of the estate. It would be the duty of the trustees to sell the right on the best terms possible and then invest the amount so received, giving the life tenant any income from such investment, but holding the principal for the remainderman.

4. *Expenditures on Real Estate.* In regard to the real property, the taxes, water rates, interest on any mortgage or encumbrance, and necessary repairs would all be at the charge of the life tenant and would have to be paid and deducted from any rents arising from the property. In case it should become necessary to pay off a mortgage or to pay a considerable assessment for street improvements, the case is more complicated. The usual rule is to take the tables of mortality and to ascertain the expectation of the life of the life tenant. Then a calculation is made as to the advantages which will

arise from her being relieved of the payment of interest on the amount involved for the balance of the life estate. If, for example, the incumbrance or assessment which is to be paid off amounts to \$10,000, and the current rate of interest is 5 per cent, the share chargeable to the life tenant is the present worth of an annuity of \$500 (the interest for a year on the mortgage), for the number of years during which the mortality tables show she is likely to enjoy the increased income.

REVIEW QUESTIONS

1. What is a life tenant? What is a remainderman?
2. When a fund is to be invested and interest, dividends and income are to be applied to the use of a beneficiary for life, does a profit from the sale of stock belong to the life tenant or to the corpus of estate?
3. Does a dividend on stock, declared before a testator's death, become a part of his estate or does it belong to the life tenant as income?
4. How would a stock dividend be apportioned between the life tenant and the remainderman in your state?
5. Do proceeds of sale of rights to subscribe to new stock go to life tenant or to body of estate?
6. Is a local assessment for improvement apportionable between life tenant and remainderman?

CHAPTER LXX

INTERMEDIATE AND FINAL ACCOUNTS

§ 460. The Obligation Account

The obligation to account rests on all administrators, executors, trustees, and guardians. The account required may be defined as an orderly statement, duly verified and supported by vouchers, of the trustee's dealings with the funds and property of the decedent. It must show all receipts and expenditures grouped according to their character, and must show correctly the balance remaining for distribution or to be held. It must show any increase in value or any depreciation. An accounting is a judicial scrutiny of such an account in open court, subject to the adverse criticism or claims contra of any legatee or devisee whose rights may be affected.

§ 461. Kinds of Accounts to be Filed

An executor's account may be intermediate or final.

An intermediate account is one filed during the administration as a report of progress. It discloses the condition of the estate at the time of the report.

A final accounting is one that is capable of being judicially settled. Such an accounting may be settled for certain purposes only, or for all purposes.

An executor's account may also be voluntary or compulsory. A voluntary account is one rendered by the executor or administrator on his own initiative. An executor or an administrator at any time may file such an account, verified with proper vouchers. A compulsory account is one at the instance of some person entitled to require it or under the

direction of the probate judge. When an account has been judicially settled, it is conclusive upon all parties concerned.

§ 462. Final Accounting

In New York an executor or an administrator may voluntarily file a final accounting one year after letters testamentary have been issued to him, and after all creditors and persons having claims against the estate have been notified by publication according to law to present them. In such case he will ask that all persons with unsettled claims be cited, and that the husband or the wife of the deceased and the next of kin must be cited. Any person interested may contest an accounting so far as it affects his interest.

The probate court may compel a final accounting after one year or when letters testamentary have been revoked, or where pursuant to a decree real estate has been sold, or where the will has provided that the executor take some action concerning real estate. A creditor, a legatee, a surety on the bond of the administrator, or a coexecutor may ask for the final accounting. All persons interested must be cited to attend.

§ 463. Preparing Accounts

In preparing an account, it is easiest to follow some precedent which has been handed down by some court or some set and certain method by which it is to be filed. In some cases complete forms are provided by the probate courts.¹

REVIEW QUESTIONS

1. Why must all who occupy positions of trust render an account? What must an executor's account contain?
2. Who may call for an account of an administrator of an estate?

¹ See Summary by Surrogate Ransome of requirements for an intermediate accounting in the matter of Dwight, 9 N. Y. Supp. 927-928.

3. What is an intermediate account? What is a voluntary account?
4. When may an executor or an administrator voluntarily file an intermediate account?
5. When may an executor voluntarily present his final account and ask that the same be judicially settled?
6. When is an account judicially settled?
7. Should the proceeds arising from a mortgage, lease, or sale of real property under a surrogate's order for payment of debts and funeral expenses be included by an executor in his account of proceedings?

CHAPTER LXXI

RIGHTS IN PROPERTY WHEN THERE IS NO WILL

§ 464. In the Case of Real Property

If a person dies without disposing of his real property by will, those persons mentioned in § 431 become entitled to it. Real property, unlike personal property, becomes the property of the heirs on the owner's death without any further action. Realty is liable for debts only in case there is not enough personal property to pay them. As a rule some action must be brought by the creditor against the heir before real property may be sold.

One obligation that must be met before the heir can take possession is the payment of any transfer or inheritance taxes on the property. This tax must be paid or the property will be sold and the tax collected out of the proceeds. If not thus sold, the title is not marketable until transfer taxes are paid, or record made that it is exempt.

§ 465. In the Case of Personal Property

If a person dies intestate leaving personal property, an administrator must be appointed. Those persons named in § 432 as being entitled to the personal property are respectively entitled to the administration of the estate. If no one else who has a better right makes a move to take out letters of administration, one of the relatives who has a right to a share in the personal property may notify the others and apply for letters himself.

Any inheritance taxes are deducted from the share of each person. Near relatives are entitled to a certain amount which

is exempt from tax. The state and the federal law must be consulted to ascertain the inheritance taxes and any exemptions.

§ 466. Rights of a Husband or a Wife

After her husband's death a wife is entitled under the common law for the remainder of her life to the use of one-third of all the real property which her husband owned during their marriage. This is her right of dower, which cannot be taken from her by any means except by her own signature to a deed, or a release, or an agreement made at or before marriage. If the property has been left to someone else by will, it is subject to this right, and the person receiving it must either give the widow the use of one-third of the property or settle with her in money for it. The same is true where there is no will. The heirs must settle with the widow for her dower right.

The widow may appear in court at the time of the settlement of the estate and claim her dower right. Or, if it is denied her, she may bring an action to enforce the right. Where the property is distributed by law, the law usually provides a certain length of time within which those who take the real property must settle with the widow for her dower rights.

If a child has been born alive, a husband has a right to a life estate in all of his wife's real property. In many states today, however, she can cut off this right of curtesy by selling the property during her lifetime, or by leaving it to someone by will.

Where a husband has the right of curtesy, another person entitled to the wife's property gets it only after the husband's death. The husband has the same right to enforce his right of curtesy that a woman would have in case of dower.

Where a person dies without leaving a will the husband

or the wife has those rights in personal property granted by the state law (see § 432), and may enforce them in the same way as has been described in § 469.

Either husband or wife may lose all rights in the estate by delaying to enforce them. Claim should be made promptly of the executor or the administrator with the will annexed, or of the heirs, if the person died without leaving a will.

§ 467. What Creditors Must Do

All creditors should present their claims against an estate promptly. If there is no move to administer the estate, any creditor has a right to serve notice on the relatives and the other persons interested and to apply for letters of administration. If no one else appears and qualifies, the administration of the estate is granted to him. He is obliged to give the usual bond with the number of sureties required by law, and in double the amount of the property belonging to the estate, to administer it faithfully.

If a creditor fails to read the notice and to present his claim within the time limited by law, he may lose the claim altogether. If the debtor has died without the creditor's knowledge, the latter's failure to present his claim on time may lose him his rights. If the claim is not presented within the time limited by law, the executor or the administrator after due notice may pay legacies or distribute the estate in his hands, and creditors lose all claim against the executor or administrator. They may, however, in such case attempt to collect from some of the legatees who have already been paid.

Note:

1. When a customer dies in debt to a business house, the collection department must inform itself and act promptly.

REVIEW QUESTIONS

1. When may real property belonging to an estate be sold to pay debts?
2. Who may take out letters of administration when a man dies intestate?
3. What rights in your state has a husband or a wife in the real estate of the other?
4. When and how should the rights of dower and curtesy be enforced?
5. In what order are the debts of the deceased usually paid?
6. What are the rights of creditors generally against the estate?
7. What are the rights of a creditor holding insufficient collateral against an insolvent estate?
8. If a creditor's claim against decedent is not presented within one year, what would be the effect?

CHAPTER LXXII

RIGHTS IN PROPERTY LEFT BY WILL

§ 468. If Real Property Has Been Devised by Will

If real property has been left by a will which did not provide that the inheritance tax was to be paid out of the funds of the estate, the party to whom the realty was left will be obliged to pay the inheritance tax, if there is one, before he is entitled to receive the property. A near relative, a husband, wife, father, mother, child, brother, or sister, would probably be entitled to some exemption. That is, a near relative is entitled to receive property worth a certain amount without paying any tax. After the specified amount has been reached, the tax is levied at a certain percentage, which is generally less than it would be for persons not related at all to the deceased.

In order to determine what, if any, rights to an exemption exist and whether there is a tax due at all, it is necessary to examine the inheritance laws of the state where the real property is located.

§ 469. If Personal Property Has Been Left by Will

The statement made in the last section may also apply to personal property. To find out whether there is an inheritance tax, and if so what exemptions may be claimed, one must consult the law of the place where the maker of the will had his residence at the time of his death. There may, however, be further taxes on the transfer of stocks and bonds under the laws of the states where the companies are located. In the case of these latter taxes no exemption is allowed.

A person who would have a right to a share in the personal

property if there were no will is entitled to be present at, and to be notified of, any contest of the will. He may be represented by his lawyer or he may contest the will himself if he thinks there is good cause.

A person is entitled to a transfer from the executor or the administrator of any stock certificates or bonds left him by the will, and may then have new certificates issued to him on the books of the respective corporations.

§ 470. Contesting a Will

If any contest is made about the probate of a will, all the evidence to prove the validity of the will must be brought in. Everyone interested must have notice of the commencement of any action to contest the will, and all such persons are entitled to be present at the trial and to be represented by counsel.

If property is left to a person by one will, and another of later date is offered for probate by which the bequest is either diminished or left out altogether, it is not wise to contest the last will unless there is clear evidence to prove that the testator was so mentally weak as to be unable to realize the nature of his acts and the value of his property at the time he made the will, or that he had an insane and unfounded prejudice against the person whose legacy was reduced or cut off.

If a will is contested, the person who would inherit the real property if no will existed is entitled to notice of the action to contest it and is entitled to be present in court and to be represented by a lawyer. He may bring in witnesses to disprove the will or the testator's mental capacity. (See § 434 on capacity to make a will.)

Undue Influence. Undue influence, on which ground so many contests are made, must have been an influence so great over a person mentally weak that he was entirely incapable of

exercising his own judgment. Contesting a will is an expensive process and a person should have very clear grounds before attempting it.

A man's will, as expressed by the name, is his will as to the disposition of his property, and rarely pleases anyone except those who are immediately benefited. Owing to the publicity given to famous cases where wills are contested, there is an erroneous popular impression that any clever lawyer can break a will. It is very difficult to break a will; of all the wills probated each year but a small percentage are contested and few are ever set aside.

It is a current belief which derives color from the sensational contests of which we read in the newspapers, that a great many wills are broken. But, though the attacks of disappointed or greedy relatives are numerous, the contrary is true according to the records of the largest county of the state with which I am most familiar (Massachusetts), and where predatory tendencies against testators are well developed. These records show a steady average of rather less than one per cent of wills disallowed during the last ten years, a result which is made more remarkable by the reminder that some of these were set aside because of defective attestation instead of the mental incapacity and undue influence of the maker ordinarily urged by the rapacious. The statistics for the same period show a yearly average of less than one per cent of wills compromised—that is, where the legatees and next of kin agreed to split their differences with the sanction of the court. These figures, which are undoubtedly indicative of conditions elsewhere, reveal a disposition on the part of juries to uphold the validity of legal testaments and tend to contradict the notion of the man in the street that his last wishes are apt to be disregarded.¹

Note:

1. To contest a will is rarely wise. (See § 31 on litigation.)

¹ "Law and The Family," Robert Grant, Judge of the Probate Court, Boston.

REVIEW QUESTIONS

1. When real property has been devised, who has to pay the inheritance tax? Explain the working of an inheritance tax.
2. What are the general provisions of the law of your state as to inheritance taxes?
3. Whose duty is it to transfer corporate stock left by a will?
4. Who are entitled to notice of the contesting of a will?
5. What mental unsoundness invalidates a will?
6. What is meant by undue influence?
7. Is it usually wise to contest a will? Give reasons for your answer.

PART XII
PERSONAL RELATIONS

CHAPTER LXXIII

HUSBAND AND WIFE

§ 471. Persons Who May Marry

Before marrying, one should always consult the law of the state where the ceremony is to be performed. Almost all states require a marriage license.

Age Requirements. All states require the consent of parents or guardians if the parties are under a certain age. This age varies in different states, the average age ranging from twelve to eighteen years for a woman, and from fourteen to twenty-one years for a man.

Forbidden Marriages. Some states forbid the marriage of first cousins. Many states forbid intermarriage between races, and in some of the southern states marriage between a white person and a negro is a crime. Persons married to those of other races or to very near relatives should consult the laws of a state before taking up residence in it, as, even if such marriages are valid in the states where they were performed, in other states which forbid such marriages it might be a crime for the parties to live together.

Annulment of Marriage. If a person who is under the age of consent, as fixed by the law of the state where the marriage takes place, marries without his or her parents' or guardians' consent, the parents or the guardians can usually have the marriage annulled; but not if, after coming of age, the person has of his or her own free will lived with the other party to the marriage.

Invalid Marriages. Anyone who has a husband or a wife living and is not divorced cannot, of course, marry again. If

he or she attempts to do so, the marriage is of no effect; but as a rule the other party to the first marriage may apply to the court to have the second marriage declared of no effect and to establish the fact that the children of the first marriage are the legitimate children of the innocent party. This is a wise course, as it insures the property rights of the children.

The injured person may also cause the other party to be prosecuted criminally and sent to prison for bigamy. In this case the prosecution must be brought in the state where the bigamous marriage took place.

If a person marries again with the honest belief that a long missing husband or wife is dead, there would be no grounds for prosecution, but the other party to the second marriage may apply to have the marriage set aside and any children declared to be his or her's only. The person who marries believing in the death of a husband or wife may apply to have the second marriage set aside; also the missing husband or wife may, unlike Enoch Arden, apply for annulment. In such a case the children would go to the party who had had no previous marital entanglement. If no action is brought, such a marriage remains valid and binding, but the supposedly dead husband or wife would probably have to apply to the court in order to obtain the right to marry again.

The length of time for which the absent person must have been missing in order to permit the husband or the wife to marry again without committing bigamy differs in the various states. In such a case the statute law of the state where the new marriage is to be performed should always be consulted. The length of time prescribed by law varies from five to seven years.

Marriage Against One's Will. A person cannot be married against his will; if forced into a marriage or induced to marry through fraud, or if he marries while too intoxicated to understand the nature of his act, he may apply to the court

to have the marriage declared void. The relatives or friends of an idiot or an insane person who attempts to contract marriage may have the attempted marriage declared of no effect. If a person marries while sane and afterwards becomes insane, that is a different matter; the marriage holds good.

If a person discovers after marriage that the other party is physically incompetent to enter into the marriage relation and that this physical condition is incurable, he or she is entitled to have the marriage set aside. Except where there has been specific legislation on the subject, contagious diseases, such as tuberculosis, venereal diseases, etc., do not prevent a person from entering into a binding marriage.

In any case a party who is entitled to have the marriage annulled must act promptly. If there is any unnecessary delay, or if the party willingly lives with the other party after discovering the circumstances which would entitle him or her to be released from the relation, the courts will refuse to interfere. Even when persons are entitled to be freed, it is against public policy to break up marriage where there is any disposition of the parties to continue living together.

Note:

1. Wherever there is a marriage license bureau, all the information necessary as to the law may be obtained at that bureau. If there is none, one should consult the domestic or personal relations law of the state or a reputable lawyer.

§ 472. What Constitutes a Marriage

The usual marriage ceremony in this country is a religious one, and inasmuch as clergymen can lawfully perform marriages, this is all that is necessary. A clergyman is not authorized to perform marriages until he has been duly licensed to preach. There must be some witnesses present, usually two.

But in other countries a civil ceremony is necessary, since the religious ceremony is not binding. Certain officers in this country, such as mayors, city clerks, and justices of the peace are authorized by law to perform marriages.

Persons may also marry in some states by simply signing a written contract in the presence of other persons who sign with them as witnesses. All who sign must acknowledge their signatures before a judge or some other authorized person and the contract must be recorded in the office of registry.

Formerly it constituted a valid marriage in most parts of this country if two people who were living together simply introduced or spoke of each other to third parties as husband or wife. But this so-called "common law marriage" has been abolished by law in many states, and it is never a safe form of marriage. Where a common law marriage is entered into and is valid, divorce can be obtained only in the usual way. Marriages according to the customs of the Society of Friends and the Ethical Culture Society are recognized as valid in most states.

Notes:

1. In most states a marriage license is necessary and no clergyman or official will marry a couple until they produce the formal license.
2. A marriage certificate signed by the clergyman and by the witnesses should be given the bride to keep as proof of the marriage.
3. Any person intending to marry should make sure that the party performing the ceremony is duly authorized.
4. The design of the solemnization of marriage is that due publicity should be attained. A secret marriage is an attempt to evade this salutary rule and is rarely justifiable.

§ 473. **Personal Rights of Husband and Wife**

A wife has a right to claim support from her husband. She may compel him to support her by bringing an action in the proper court, or she may order such things as she needs and have them charged to him. The things so ordered must, however, be articles of food, clothing, medicine, or other things necessary to health, life, or comfort. It has been decided that theater tickets and bonbons are not necessities of life. A wife has a right to order things of a quality suited to her husband's income. If he is wealthy or in comfortable circumstances, servants' wages and taxi hire may be considered necessary for her proper support.

A husband has a right to require his wife to perform such services as are necessary to conduct his household in accordance with the style of living to which his income entitles him. A wealthy man has a right to ask his wife to supervise and oversee his servants, to manage his household accounts, etc., and a poor man may rightfully ask his wife to perform necessary domestic work such as cooking, cleaning, etc. This is in return for the duty of support which he owes her.

Both husband and wife have a right to each other's society. If either one leaves the other it is good grounds for the deserted party to obtain a legal separation, or in some states a divorce, unless it was because the husband's or the wife's cruelty, habitual drunkenness, or moral turpitude had made it unsafe to live with him or her. (See § 476.)

Neither husband nor wife can sue the other for damages for injuries, but either may be bound to keep the peace if he or she abuses the other, or the injured party can secure a legal separation.

Notes:

1. The right to buy necessities on the husband's account is restricted by his credit and the mer-

chant's willingness to take chances on collecting the amount.

2. A merchant charging a wife's necessities to a husband's account should make sure she is not obtaining enough elsewhere. If so, he may not be able to collect.

§ 474. Rights of Husband and Wife in Each Other's Property

The question of dower and curtesy has been taken up more fully in the chapter on wills (§ 466) and real property (§ 409). Where dower exists it cannot be taken from the wife unless she signs a deed of the property or a written release of her right of dower.

In New York the wife can cut off the right of curtesy of her husband by making a will which leaves the property to other persons.

Formerly, a husband had a right to the use of his wife's real property during her life. This was called an estate by marital right. Probably in none of the states of the Union does this right exist today. In former times all a wife's personal property at once became her husband's when they married, and all he had to do in order to claim the personal property was to take possession. This right, too, has been greatly modified and in most states entirely abolished.

Community Property. In some states that have their marriage laws from the Roman law rather than the common law, the system of community property prevails to a certain extent. The marriage relationship is regarded in some respects as a partnership. All property with certain exceptions acquired by either husband or wife or both during the marriage is regarded as the community property of both; but in most of these states, while the marriage law continues, the husband has control of it. Upon the death of either the entire community property goes to the other if there are no children.

The property excepted from the community rule and left under the separate ownership and control of one or the other is known as the separate property of husband and wife. It includes all property owned by either at the time of marriage and all acquired afterwards by gift, devise, or descent, or property taken in exchange for property of the kinds enumerated. Generally, the income from separate property is regarded as separate property. The states and territories which use this system are:

Arizona	Philippines
California	Porto Rico
Louisiana	Texas
Nevada	Washington
New Mexico	

Note:

1. A married woman may, as a rule, prevent her husband from getting control of any of her property either before or after her death. In some states she still must obtain his consent in order to sell her property. In most states today a husband cannot cut off his wife's right to dower without her consent.

§ 475. Rights of Husband or Wife in Case the Other is Injured

A husband has a right to recover damages for his wife's injuries because of his legal right to her services. The injury deprives him of these services and he is awarded damages as a compensation for his loss. He may recover, in addition, for the expense of medical attendance since he is liable for it.

A wife has a right to recover damages only in case of her husband's death, and then only if the statute law of the state gives her a right of action. The Employers' Liability and

Workmen's Compensation Acts usually give this right of action. (See Chapter XLII.)

In some states either husband or wife has a right to recover for the death of the other under the acts giving the right; in others, only the wife has a right to such compensation. The wife has in no case a right to recover for her husband's injuries. That right is his. A wife has a right to recover for her own injuries, pain, suffering, loss of time, and permanent injury, in addition to her husband's right to damages for loss of her services. In all cases the law of the state must be consulted in order to know exactly what those rights are.

§ 476. Divorce

There are two forms of divorce: one is the limited divorce which most people, when they distinguish between the two forms, call a separation; the other form is the absolute divorce.

A legal separation merely gives to the parties the right to live apart and to the wife a right to claim a definite sum as support from her husband while living apart. The limited divorce does not give any right to marry again. If they wish the parties may annul the separation at any time by simply living together again.

An absolute divorce completely separates the husband and the wife as though they had never been married. After an absolute divorce either party is entirely free to marry. If the parties become reconciled after a divorce and wish to be married again, it is necessary for them to solemnize a new marriage.

The difficulty about divorce lies in the fact that there is no uniform law on the subject. Circumstances which one state considers ground for absolute divorce are in another merely ground for a legal separation. In New York the only ground

for absolute divorce is unfaithfulness to the marriage vow. In some of the western states what is known as incompatibility of temperament, or inability to get along happily together, is considered ground for an absolute divorce. Between these two extremes, there are states which recognize cruelty, habitual drunkenness, or abandonment as a ground for such a divorce. In almost all the states, including New York, a sentence to state's prison for life severs the marriage relation and even gives the other party a right to marry again without a formal divorce. All of these things, except incompatibility of temperament, are grounds for a legal separation in states where they are not recognized as grounds for absolute divorce.

The popularly condemned method of taking up a temporary residence in a state which grants a divorce on easy grounds and obtaining a divorce without the defendant's appearing in the case at all, either in person or by lawyer, is, besides being revolting to the moral sense of the community, an extremely unsafe method. Unless the summons is personally served on the defendant within the state where the action takes place, or the defendant voluntarily appears in court or is represented by a lawyer, the decree is not good outside the state where it is granted. Many states also do not recognize such a divorce if the party takes up a temporary residence in the state merely for the purpose of getting a divorce.

If a woman marries again after obtaining such a divorce she may find herself without any of the rights of a wife if she and her new husband afterwards move to a state other than the one where the divorce was granted; and, if anyone chooses to make an objection, the children of the second marriage may be prevented from inheriting property belonging to their father.

Where the wife sues her husband for an absolute divorce, she has a right to ask the court to compel him to pay her lawyer's fees and, if the divorce is granted, to pay her a

reasonable amount for her support during the rest of her life. At the husband's death the wife is entitled to her dower right in all the real estate which he owned while they were married and before the divorce; but if the wife dies first, her husband's right of curtesy is lost by the divorce.

The dower right of a wife who is divorced by her husband is cut off by the decree of divorce.

In a suit for a divorce neither the husband nor the wife who is suing nor the other party may be required to testify to anything which would prove the right of either to a divorce. But either one may be required to testify to anything which would prevent the divorce, and either one may be called upon to testify to their marriage.

If a wife is unable to support herself during the trial, in most states she may apply to the court for temporary alimony, that is, an allowance from her husband sufficient for her support during the trial. Alimony must be asked for during the trial of the divorce action and must be included in the decree of the divorce. After a decree of divorce has been entered it is too late to ask for alimony.

If a husband or a wife who is suing the other for divorce on the ground of unfaithfulness to the marriage vows, is himself (or herself) proved guilty of unfaithfulness, no divorce will be granted, but the parties will be left to the situation they have themselves created.

A divorce which was obtained by an agreement between the husband and the wife would be of no value whatever. Marriage to another after such a divorce would be no marriage at all.

REVIEW QUESTIONS

1. Who may marry in your state? What are the requirements for a valid ceremony?

2. Where can information as to the laws relating to marriage be obtained?
3. Who is authorized to perform the marriage ceremony in your state?
4. What rights of support has a wife? What rights of assistance has a husband?
5. What are the grounds for divorce in the state in which you live?
6. What rights in his wife's property has a husband in your state?
In your state can a wife sell her separate property without her husband's joining in the deed?
7. What are the features of the law as to property of married people in those states that have followed the Roman law?
8. In your state what rights of recovery has a husband when his wife is injured? Has she any right to recover for her husband's injury? What rights has the survivor in case of death?
9. Should there be an amendment to the Federal Constitution giving Congress the power to adopt uniform divorce laws?

CHAPTER LXXIV

PARENT AND CHILD

§ 477. Duties and Rights of Father in Relation to Child

A father must support his child. He may be compelled to do so by the court if necessary, or anyone interested in the child has the same right to charge its father with things necessary for its support that a wife has. The things charged to the father must be food, clothing, lodging, medical attendance, or other things necessary to its health; and the child's protector also has a right to charge the expense of an education compatible with the social standing and wealth of the child's family. The food, clothing, etc., may be of a quality no higher than is suited to its father's means.

In return for this duty the law gives the father the right to the child's services and wages until he becomes of age. It is the duty of the child to obey its father and he has a right to compel this obedience by punishment, provided such discipline is not exercised in a cruel and vindictive manner. A child cannot be put to work until he has reached a certain age (generally 12 or 14), by the school law, but any money he earns in his spare time is legally his father's if the latter chooses to claim it. A father may voluntarily give a child a right to his own services and wages. This is called emancipation, and is usually effected by acquiescing in the child's drawing his own wages. Should a daughter marry before coming of age, she is emancipated thereby.

Where Third Persons Are Concerned. If a third person injures a child in any way, the father has a right to sue for damages for the loss of the child's services. Where a daughter

has been wronged a father may use this form of action to punish the man who wronged her. The loss of services may be purely a fiction, but in such a case a father has a right to this action, even though his daughter performed only nominal services about the house.

He might also prosecute the man criminally if the daughter was under the age of consent fixed by law. This is under twenty-one, but varies from twelve to eighteen in the different states. The father would still have the right to recover damages although the daughter was over the age of consent, if she was under twenty-one, or if she was over that age and living at home with him.

A father is not liable to third persons for injuries caused them by his child unless the injury was the result of the child's carelessness in performing some service for the father. As a practical matter, the father usually pays the bills rather than have the child sent to jail or put on probation.

Notes:

1. If you employ a boy or a girl under age, you should have the father's written consent to pay its wages to the child.
2. Where a neighbor's boy breaks a window, preserve your temper and settle without a quarrel.

§ 478. Duties and Rights of Mother in Relation to Child

If the father is living, the mother as a general rule has practically no rights or duties towards her child which the law will recognize. She is not called on for its support and she is not entitled to its earnings. She is not liable for any injuries which the child may cause to other persons.

Where the father is dead the mother is not obliged to support the child; instead it may become an object of charity. Where the mother does choose to support the child, in some

cases she may be allowed to claim its earnings; in others she has no claim.

Where a daughter has been wronged, sometimes the courts will give the mother a right to recover damages from the man who wronged her. Where the mother has no legal right to her services, the decision depends on the point of view which the court adopts.

In some states a man may will the guardianship of his children away from his wife at his death; in others the mother is recognized as a joint guardian of the children and given the first right to them. In case of a divorce, the courts give the children to the party whose custody they think will be for the best interests of the children.

Note:

1. Courts rightly hold that generally the mother should have the custody of the child.

§ 479. What Duties and Rights May Be Claimed by Adopted Children

To adopt children legally it is necessary to file papers of adoption with some court, the procedure being regulated by the statutes of the state. Unless these papers are filed, the children have no rights in the property of the foster parents and no legal right to use the parents' name. If the children have been legally adopted, they stand in the place of real children so far as the parents are concerned.

A child who has been legally adopted has a right to the same share in the estate of a parent who dies without leaving a will which an own child would have received. (See Chapter LXIII on wills.) In some states adopted children have the same right by law in property coming from other people to their adopted father or mother, if these are dead, which own children would have had; in others they have no right to such property.

An adopted child, in order to find out whether it is entitled to property left by its adopted parents would have to consult the law of the state where it was adopted to discover the legal effect of the adoption. In order to find out whether or not an adopted child is entitled to take property left by any relative of its adopted parents, it is necessary to consult the law of the state where the property is located, if it is real estate; of the state of which the deceased person died a resident, if the property consists of personalty.

§ 480. Children as Criminals

A child must be old enough to understand the nature of its act before it can be treated as a criminal. The jury will determine, from seeing the child in court and from the testimony, whether or not it can be held responsible.

Formerly, children committing crimes were treated in much the same way that other criminals were. Then came the reform school and the children's courts, and today we have the probation system in many states. In this direction there is, in most states, room for much improvement. No child should be allowed to grow up a criminal.

A parent whose child is incorrigible may appear against it in court and have it put in a reform school or on probation.

A child should be trained from its very earliest years so that criminal acts and incorrigibility are impossible. No matter how kindly or wisely administered a public system of dealing with incorrigible children may be, the experience will leave a shadow on the child's after-life which the parent by wise and careful handling might and should have been able to avoid.

Note:

1. A criminal or vicious child should be a greater disgrace to its parents than to itself.

REVIEW QUESTIONS

1. What is the legal duty of a father to a child? What rights has he over his child?
2. What right of suit has a father for injury to his child? Is he liable for the torts or wrongful acts of his child?
3. What duties and what rights has a mother concerning her children when the father is alive? When he is dead?
4. In your state what rights has an adopted child?
5. When can a child commit a crime? Who decides as to a child's criminality?

CHAPTER LXXV

GUARDIAN AND WARD

§ 481. Personal Guardian

If a child's father is dead, it may be necessary to appoint a personal guardian. A personal guardian or a guardian of property would be appointed by that court that has charge of probate matters, known as a probate court, a surrogate's court, or an orphan's court. If the mother is living, or any other near relatives, she or one of them would have the first right to the child's guardianship, if a proper person and able to take care of the child. If there is no dispute about the child's custody, it is not even necessary to go through the formality of being appointed unless there is property belonging to the child to be taken care of. If the mother or the next nearest relative is an improper person, it is safer to go through the formality of legal appointment. A child old enough to understand things (usually the age is fixed by law at twelve or fourteen) is generally allowed by the court to choose its own guardian. At common law, a child's father could always appoint a guardian for the child in his will or by a deed. In states where the equal guardianship law is in force, the mother becomes the child's guardian on the father's death. The father may appoint a guardian in any case where the mother is dead, and if the father is dead, the mother has the same privilege.

The personal guardian has a right to the custody of the child, and it is his duty to support it and to provide for its education. The guardian may take the child's wages if the child is over school age, otherwise he may take what it may earn in its spare time. He has a right to the child's obedience

and services about the house, and has the same right to discipline the child that the father had.

It was formerly the custom to apprentice children out to people to learn a trade. The professions were learned in the same way. The master generally supplied the child with food and clothing, and in return was entitled to all the child's services until he became of age. The master had practically the rights and the duties of a personal guardian in respect to the child, except that he was required to teach it his own trade or profession. A master generally had the right to administer corporal punishment when he deemed it necessary.

Note:

1. It is not necessary to appoint a personal guardian for a child unless there are no near relatives to act in that capacity, or unless the child would otherwise fall into the hands of a person who is morally or otherwise unfit to bring it up.

§ 482. Guardian of Property

Where property belongs to a child, it is usually necessary to appoint a guardian of the property. The father, if he is living, is entitled to the appointment. If not, any near relative may apply and, if the court considers him fit, it will appoint him. Otherwise the court will appoint whom it considers fit. The child if old enough (usually about twelve or fourteen), may choose his own guardian, and if the court approves the choice it will appoint that person.

If the property is left to the child by will, the person making the will may appoint a guardian to take care of the child's property.

A bond is always required from a guardian of property. He must manage the child's property carefully and keep it in good repair. If there is any surplus income over what is needed for the child's support and education, or if the income

is to be accumulated, the guardian must invest the amount in such securities as are allowed by law for such investments. These are strictly limited to those known as gilt-edge securities, and if the guardian invests in any others he will be personally liable for any loss, while still obliged to turn over to the child any gain that he makes in so doing. He may, however, without the danger of such liability, invest property left by will in any securities expressly permitted by the will.

If it becomes necessary at any time to sell any of the property in order to protect the child's interests, the guardian should apply to the court for permission to do so. If at any time the income from the estate ceases to be large enough to support and educate the child, the court's permission must be obtained before spending any of the principal.

A guardian may always apply to the court to have any doubtful provision of a will or a deed interpreted to him. In any doubtful case it is safer to do this and to get the court's permission to do anything necessary.

Note:

1. A trust company is the safest guardian for property belonging to a child.

REVIEW QUESTIONS

1. When should a personal guardian be appointed? Who in your state would appoint such a guardian? What rights and duties has a personal guardian?
2. What are the functions of a guardian of property? How may such a guardian be appointed? Why would a bond be required?
3. Why is a trust company a better guardian of property than an individual?

PART XIII
SURETYSHIP

CHAPTER LXXVI

THE CONTRACT OF SURETYSHIP OR OF GUARANTY

§ 483. Definition

The contract of suretyship is a contract to be responsible for the debt, default, or miscarriage of another. There are two kinds of such agreements:

1. One is an agreement to be responsible personally if the debtor fails to pay; it may be enforced just as soon as the debt falls due and is not paid. This is the contract of suretyship proper.

2. The other is a guaranty that the other party will pay his obligations, and is called a contract of guaranty. In this case, the person with whom the agreement is made must sue the debtor before he can collect from the guarantor.

There are three sorts or forms of guaranty: (1) general or special, (2) limited or continuing, and (3) absolute or conditional.

The party assuming the responsibility is called the "surety" or "guarantor."

The party who is primarily liable is called the "principal debtor" or "obligor."

The party with whom the agreement is made is called the "creditor" or "obligee."

The party who indorses negotiable paper is not called a surety, though his responsibility is similar. An indorser's responsibility is governed by very different rules from those relating to sureties. (See § 179.)

§ 484. Nature of Contract

The contract of suretyship is generally part of the original contract between the parties, and usually consists of signing some paper such as a bond or note as surety along with the maker of the original obligation. If a man signs an executor's bond along with the executor, he becomes a surety for the faithful performance of the executor's duties.

The contract of guaranty is a separate agreement in the nature of an offer to be responsible for the extension of credit, or a separate contract written on the back of some other agreement. If you write to Paul Jones asking him to extend credit to John Doe, and stating that you will see him paid, or if you write "I guarantee the within contract" on the outside of a contract and sign your name, you become a guarantor.

Many men have come to grief through their careless willingness to become responsible for others. Long ago Solomon said: "A man void of understanding striketh hands and becometh surety in the presence of his friend." It is wrong for any man to become responsible for the financial mishaps of another unless he can afford to lose the money. When men who cannot afford to lose the money sign as sureties, they take chances they have no right to take. There is always a risk involved or the surety would not be demanded.

Notes:

1. Do not take any risk as surety for another which you cannot afford to pay if required.
2. Do not ask a friend to be your surety unless the friend can afford to lose the money.

§ 485. Written Contract

The contract of suretyship or guaranty must always be in writing in order to be enforced. It is one of the classes of contracts specified in the Statute of Frauds, i.e., a promise

to answer for the debt, default, or miscarriage of another. (See § 48.)

If a person agrees to pay outright for something to be done for another, or goods to be delivered to another, this is not a contract of suretyship and need not be written. For instance, if John Brown says to a grocer, "Deliver groceries to James Smith and I will pay for them," this is not a contract of suretyship or guaranty, but an outright agreement to pay on the part of John Brown—and the charge should be against Brown and not against Smith. But if Brown should write to the grocer, "If you will sell groceries on credit to Smith, I will pay for them if he does not," this is a contract of guaranty and must be in writing. Brown is promising to pay only in event that Smith does not.

Notes:

1. If you sell goods on credit, know exactly to whom the goods are to be charged.
2. If you sell with a guaranty, be sure the conditions are stated in writing and signed by the guarantor.

§ 486. Parties

There are three parties to a contract of suretyship—the creditor or obligee; principal debtor or obligor; and the surety or guarantor.

The surety must be competent to contract. He is the one who incurs responsibility under the contract of surety; hence, it is essential that he be competent to bind himself. (The reason for taking a surety may have been because the principal was not competent to contract.) The promise to be responsible for the debt of the obligor must be made direct to the obligee or the surety will not be a party to the contract. Signing a note or paper as surety is, however, a sufficient promise to the obligee. (See §§ 173, 174.)

§ 487. Consideration

The contract of the obligee with the principal debtor or obligor is the consideration for the surety's promise. If it is a contract of guaranty, the consideration is the giving of credit to the principal debtor. If a bond or note, it is the furnishing of the money for which the bond or note was given. In the case of a bond for the faithful performance of the duties of an officer, the enjoyment of the office is the consideration or in the case of a bail bond the freedom of the prisoner is the consideration for the agreement of the surety.

If the credit has been given to the principal debtor *before* the contract with the surety or guarantor, there is no consideration for this second contract and the surety is not bound. In such a situation, to make a valid contract and hold the surety the creditor or obligee must pay the surety something, remit something to the obligor, or extend the time of payment, so that there may be a good consideration for the agreement of the surety. (See § 44.)

Notes:

1. If you are selling on a guaranty, have a written contract showing that you grant the credit in consideration of the guaranty.
2. If the surety comes in after the credit has been granted, there must be a new consideration.

§ 488. Delivery and Acceptance

A bond, note, or paper of similar nature, which is indorsed or guaranteed, must be delivered to the obligee and accepted by him before it becomes a contract and the surety becomes liable on it. Simply receiving the paper, however, without any comment, is a sufficient acceptance.

In a contract of guaranty, the creditor must notify the guarantor that he accepts his offer and will extend the credit

asked for in reliance on his guaranty. Even where the creditor himself asks for the guaranty, he must still notify the guarantor that credit has been extended.

If the guaranty is for all sales during a certain period of time, such as a year, the creditor should notify the guarantor at once that he has granted the credit, and at the end of the period he should notify the guarantor again of the amount of credit he has granted during the year.

Note:

1. Before you deliver goods on a guaranty notify the guarantor that you take him as security.

REVIEW QUESTIONS

1. What is the nature of the contract of suretyship?
2. Distinguish between suretyship and the contract of guaranty.
3. Is a contract of guaranty negotiable? Explain.
4. How does the liability of a guarantor differ from that of an indorser of a promissory note?
5. Why must all contracts of surety or guaranty be in writing?
6. Distinguish between an original contract to pay for another and the contract of suretyship.
7. Distinguish as to the liability of a guaranty for payment, that of one for collection and that of a continuing guaranty.
8. Who are the parties to a contract of suretyship or guaranty?
9. How should a contract of suretyship or guaranty be adopted?
10. An accountant agreed with a corporation through its president to examine the books. After beginning work he became uneasy and asked the president to guarantee payment personally. This the president did in writing. When the work was finished the corporation was insolvent. Was the president legally liable?
11. Is a surety liable for interest on claim after default?
12. What is the distinction between guaranteeing payment and guaranteeing collection?
13. "I hereby guarantee the collection of the within note." Is the foregoing valid?

CHAPTER LXXVII

RIGHTS OF SURETY OR GUARANTOR

§ 489. Notice

A surety is not entitled to notice of the failure of the obligor to pay the debt or perform his duty before the obligee may sue him and hold him liable. If the debt is not paid, or the prisoner on bail escapes, or the cashier absconds with the funds, the surety is liable at once. This is because a surety makes himself one with the original obligor.

In many states, on the other hand, a guarantor must be given notice of the failure of the person to perform what he has guaranteed. When, however, the debt guaranteed is of fixed amount due on a certain day, the guarantor may be liable, though not notified. But in any case of guaranty the creditor, or obligee, must enforce any security which he may have and bring suit against the obligor before he can turn to the guarantor to collect what still remains due.

In the case of negotiable instruments with indorsement, the indorser differs from a surety in that there must always be demand of payment and notice that it has been refused, in order to hold him liable.

Note:

1. A guarantor must have prompt written notice if the obligor falls down.

§ 490. Defenses

If the creditor cannot enforce the contract against the debtor because of some defect in it, he cannot enforce it against the surety either. This statement does not apply where

the creditor cannot enforce the contract because the debtor was under age, or insane, or suffering under some disability which by law made him incapable of contracting. In such a case the very reason for having a surety was to protect the creditor from loss through such disability and the surety is not released.

Fraud practiced upon the principal debtor or the surety would be a good defense to an action to enforce the contract against the surety.

§ 491. Reimbursement

After a surety has paid the debt, he is entitled to turn around and collect it, if he can, from the obligor, who had incurred the original obligation. Instead of paying the debt the surety may, if he chooses, apply to a court of equity to compel the obligor to pay it, and to have any security which the obligor may have given to secure the debt sold to pay it. He is then liable only if the obligor is absolutely unable to pay and any existing security does not sell for enough to satisfy the debt.

§ 492. Subrogation

In addition to his right to recover from the original debtor anything he has paid on the contract, the surety has the right to be put in the creditor's place, so far as remedies against the debtor are concerned; that is, the surety is entitled to all the creditor's rights against him, including the right to enforce any security for the payment of the debt. This is styled the "right of subrogation."

§ 493. Contribution

A cosurety is one who is equally bound with another for the debt, default, or miscarriage. Usually both sureties sign the same instrument at the same time, but this is not essential.

If there are other cosureties under the contract, the surety who pays the debt is entitled to recover from each of them a proportionate part of what he has paid. The creditor may not release any of them without securing the consent of all the others. If he does so, it will have the same effect as releasing any part of the security and will discharge the obligation of the remainder of the cosureties to that extent.

§ 494. Extension of Time

Merely extending the time to pay a debt without receiving any new consideration for it will not release the surety, because the agreement to extend the time in such case could not be enforced. But a valid extension, based on a consideration, would release a surety or guarantor.

Note:

1. If a debt is guaranteed, a release or extension may let the guarantor out.

§ 495. Discharge

The surety can be held to the contract only as he made it. If the creditor and the principal debtor agree to make any change in it, they must get the surety's consent or he will cease to be liable. If the surety is not released by delay in collection, the original contract stands. If the surety wants to prevent the delay, he must notify the creditor to enforce payment or must himself bring suit to do so.

If the creditor releases the principal debtor or any of the security given by him for the payment of the debt, he loses his rights against the surety to that extent. For instance, if the creditor has a mortgage as security for the payment of the debt, and releases part of the land subject to the mortgage, he will be entitled to collect from the surety only the amount of the debt less what the land so released is worth.

A surety must usually pay the debt in full before he can demand to be put in the creditor's place.

If the creditor releases the obligor from payment, he releases the surety also. If, however, at the time he releases the debtor, the creditor states that he reserves his right against the surety, and so notifies the surety, the surety remains liable, but after the surety has paid the debt he may collect it himself from the principal.

A surety on a bond for the faithful performance of the duties of some responsible position, will be released from liability if the employer continues employing the person holding such position after discovering dishonesty in his dealings.

In some states the guarantor or surety may give notice to the creditor to enforce his rights against the principal debtor when the contract falls due, and if the principal debtor, though fully able to meet the obligation at that time, afterwards becomes unable to do so, the creditor cannot enforce the liability against the surety.

Before any credit has been extended in reliance on his promise, a guarantor may give notice to the person from whom he has requested credit that he has changed his mind and refuses to be liable for the party for whom he asked the credit. He cannot thereafter be held responsible for any credit which may be extended.

Death. If the obligor dies before he has entered upon the official duties for which a bond was given, or before he has received any money or taken advantage of any credit to which he was entitled under the agreement, there is of course nothing to hold the surety for. After the principal obligor has incurred any liability under the agreement, the surety becomes liable and remains so even in case of the principal obligor's death.

If the surety himself dies, his obligation is not discharged but his estate still remains liable on the contract. It must be

enforced against the other sureties first, however. After the death of a guarantor, no further credit may be extended in reliance on his guaranty, but his estate remains liable for what has already been given.

Notes:

1. The creditor on an obligation should enforce it within a reasonable time after it falls due, in order to be sure of his rights against the surety or sureties.
2. Any changes in an agreement without the sureties' written consent may release them.

REVIEW QUESTIONS

1. What is the distinction between sureties and guarantors as to giving notice of default?
2. If the principal debtor was a minor, would the surety be held?
3. If a surety is compelled to pay, what redress has he?
4. A creditor holds collateral and debt is guaranteed. Debtor defaults and guarantor pays. What becomes of collateral?
5. If the owner anticipates a portion of the payment due the contractor, is the surety thereby released?
6. A owes B \$500 and offers his note for the amount for four months with surety as follows: "I agree to become responsible as surety for the payment of A's note for Five Hundred Dollars (\$500) dated this day." Signed "C." When the note becomes due, A pays \$100 on account and gives B a new note for \$400 at four months. This is not paid, and B sues C on his surety contract. Can C make any defense, and if so, what?

PART XIV
DEBTS AND INTEREST

CHAPTER LXXVIII

DEBTS

§ 496. Definitions

Debt is the owing of money, goods or services to another. It is defined in the Century Dictionary as follows: "That which is due from one person to another, whether money, goods or services and whether payable at present or at a future time; that which one person is bound to pay or to perform for another; what one is obliged to do or to suffer; a due; a duty; an obligation." More particularly in law the word signifies the owing of money. The person owing is called the debtor and the other party is called the creditor.

Generally, the creditor will make a demand for the debt when it is due, but legally it is the duty of the debtor to pay the creditor at his place of business on such date as the debt may be due.

§ 497. Evidences of Debt

If a debt is not paid when it is due, the creditor can sue for payment. In such case the primary question is, how is the creditor to prove his claim? The strongest proof would be a promissory note signed by the debtor of which the creditor was a holder in due course. An acknowledgment of indebtedness would be equally good to prove the claim, but it might be subject to defenses or counterclaims. An account stated, or accounts as shown by books of original entry, such as a day-book or blotter, would be good evidence. If the obligation is for goods delivered or shipped, receipts for the goods or bills of lading would be evidence that they had been sent

but not that they had not been paid for. So many people are careless in their business transactions, that many just and good claims cannot be collected because the evidence to prove them in court is lacking.

§ 498. Open and Stated Accounts

An open or current account is the usual record kept by a merchant of sales of goods which had been made to the debtor from time to time. When suit is brought on an open account, it is necessary to prove from the blotter or other book of original entry the fact of the sales at the times and in the quantities specified. A debtor has always the right to call for a bill of particulars stating wherewith he is charged.

A stated or closed account is where an account has been rendered and the party against whom it has been rendered has agreed to it expressly or impliedly by receiving the bill and making no objections within a reasonable time. Against a stated account the Statute of Limitations would run from the time of the agreed-to statement. The Statute of Limitations on such accounts in the State of New York provides that action may not be brought after six years.

Where an account is all on one side of the ledger, the Statute of Limitations runs against each separate item. Where there has been a mutual account with entries on both sides, it would run from date of the last balancing item. It is necessary for this that the accounts really be mutual and not merely charges on one side and a red ink balance on the other.

§ 499. Receipts and Releases

When payments are made, either partial or complete, the creditor should give the debtor a receipt showing the amount and the date when payment had been made. The debtor, however, has no legal right to insist on a receipt. He can

take a witness with him who will note the payment and be able to testify afterwards if the matter is disputed. (See § 78, "Tender.") If he makes payment by check or by certified check, the cancelled check would be evidence of the payment. If the creditor will accept a check indorsed "Payment in full of all accounts," or "Payment in full of (a specified matter)" that would be a good receipt if payment is in full or if there is any dispute as to the amount owed. If such a check were only part payment of an undisputed claim the balance might still be collected.

A release is usually a more formal instrument than receipt. Where matters have been in dispute or where claims conflict and the parties finally agree on a settlement, one or both parties will execute a general release. This is a very formal instrument; its phrases would include all matters that might by any possibility be in dispute between the parties, and it is signed under seal so that it becomes a sealed instrument and cannot thereafter be disputed.

§ 500. Part Payment in Full Settlement

It is a well-settled doctrine of law that part payment of a claim the amount of which is not in dispute cannot be a settlement of the whole claim. It happens many times that a man who cannot pay the full amount against him will pay one-half or more on the condition that he is to have a receipt in full. The law holds, however, that paying part of the amount that is due to be paid in full is not a consideration that will release him from the payment of the part he has left unpaid. If, instead of paying money, he pays property, the law would not inquire as to its value, and such a settlement would be final. Therefore a man who pays part cash and part in some article of property would receive a release in full that could not be disputed later. It will also be settled by his taking a receipt in full under seal. If, however, a

claim is in dispute, a part payment of the claim may be accepted as a compromise and in such case will constitute full settlement of the whole claim.

§ 501. Accord and Satisfaction

An accord is an agreement between two persons one of whom has a claim against the other, that the debtor shall give or do something in consideration of which the creditor shall consider his claim satisfied. When such an agreement has been made and performed, it is called an "accord and satisfaction," and no further claim against the debtor may be brought by the creditor.

If the parties to such an agreement accept a different thing from that which they are entitled to, they are nevertheless bound and a promise later made by the debtor to do something further in order to satisfy the claim is without consideration and therefore not enforceable.

If the claim against the debtor has been an instrument under seal, an accord and satisfaction will only be valid if it is likewise under seal. If, however, money is due and by statute the debtor has the right by bringing the sum due the creditor and such interest as may have accrued into court to be discharged, an oral accord and satisfaction is good.

The agreement of accord and satisfaction may be either express or implied and as in all contracts must have a consideration to be valid. It must also be understood at the time of the agreement that such things as are to be performed by the debtor shall constitute an extinction of any claim that the creditor may have against him, and the creditor must also accept it with the intention of having such performance satisfy his claim. These latter requirements are absolutely essential and without them there can be no valid accord and satisfaction.

§ 502. The Appropriation of Payment

The question sometimes arises, when a debtor pays part on account consisting of items that became due at different dates, as to the items on which the payment is to be applied. If the debtor states when making his payment that it is to be applied to certain particular claims, he has the right to do this and the creditor cannot apply it to those older claims that are most likely to be outlawed by the Statute of Limitations. If the debtor, however, makes payment and says nothing about its appropriation, the creditor may use his discretion and apply it to the oldest items on the account.

§ 503. Equitable Jurisdiction in Actions for an Accounting

In the case of a partnership disagreement or where trustees are not giving satisfaction, the parties injured may go into a court of equity and ask that the other partner or partners, or trustee or trustees, shall be compelled to make an accounting. If a proper case is made out, the judge will order such an accounting to be made, usually sending it to a referee with direction to go into the account and render a report back to the court. If the court affirms the report of the referee, the accounting is conclusive as between the parties.

REVIEW QUESTIONS

1. What is a debt? When, where, and to whom must payment of a debt be made?
2. Is a ledger made from slips a book of original entry? Can cash loans be proved from check-book stubs? Or by cash-book entries?
3. Distinguish the difference between an open and a stated account. To what extent is an account stated conclusive? Does the mere rendering of an account make it an account stated? On what grounds may an account stated be opened?
4. May one recover on an account stated on proof of the admission of a general balance without proving the items?

5. After how many years is a mutual account between merchants barred? When does the Statute of Limitations begin to run?
6. What constitutes a breach in the continuity of an account current?
7. Within what time must one object after receiving an account to prevent its becoming an account stated?
8. When does the Statute of Limitations begin to run on an account stated?
9. What is a release? What is a mutual release? May a mutual release given on adjustment of old accounts be disturbed? Explain. May a release be disturbed?
10. Is a debtor legally entitled to a receipt? How may payment be proved? How may a check be used as evidence of payment?
11. C accepts of K the note of X in full for K's debt to C, though the amount of the note does not cover the debt. Has C still a claim?
12. Is an indorsement "in full of all accounts to date" on a check accepted by creditor (amount being insufficient) a discharge for a disputed claim?
13. When a creditor accepts a part in satisfaction of the whole debt, how may the debtor guard against further demands?
14. A debtor sends a check to creditor stating that it is "in full," and the creditor cashes the check but declines to regard it as in full. Debtor demands receipt in full or return of check. Creditor demands payment of balance. Is there an accord and satisfaction?
15. Which has the first right to apply a payment against any one of several debts, the debtor or the creditor? What is the rule for the appropriation of payments made by a person who owes several interest-bearing debts to the same creditor?
16. When has equity jurisdiction in cases of account? Where one party is entitled to an accounting from another, what is the usual and proper legal proceeding to secure such an account?
17. Under what circumstances is taking a debtor's note payment of a pre-existing debt?
18. If the note is not taken as absolute payment and is afterward dishonored, must creditor sue on it before returning to his original demand?
19. Is the note of a third party, taken at time debt is created, payment therefor?

CHAPTER LXXIX

ENFORCING PAYMENT OF DEBTS

§ 504. When the Creditor Has Some Security for the Debt

Security may be in the form of a mortgage on land or on personal property, or it may consist of a statutory lien, or of a right to reclaim property under a contract of conditional sale. (See § 95.)

If the security is a real estate mortgage, and the debtor has neglected or definitely refused to make the payments agreed upon, the proper course is to foreclose. Should the mortgage provide that on default the holder may sell the property, a foreclosure proceeding is still necessary. In order to give a clear title, the suit to foreclose must be brought and all legal formalities complied with before the property is sold. It must be sold at public auction, unless the mortgage permits a private sale, the former being the wiser method to follow in all cases, as afterwards no questions concerning the legality of the sale will arise.

When the mortgage is on real property consisting of several lots or parcels, they must be offered separately, unless the mortgage specifically permits that they be sold as a whole.

Where there is a lien on property of any kind, such as a mechanics' or an employees' lien for personal services, the statutes which provide for the safeguarding of this class of claims also provide a method of collecting them. Common carriers have a lien for the freight upon goods carried; warehousemen upon the goods stored, for storage charges; tailors have liens on the suits made up from cloth given them; and carpenters upon the finished product of their labor, etc. The

statutes bearing upon each case should be examined and the method of enforcement strictly followed, keeping in mind that the lien laws of each state vary in kind, number, and procedure.

In the case of a conditional sale, properly registered, the ownership remains in the seller until the full purchase price has been paid, or, if the agreement of sale stipulates that title should pass on the payment of a smaller amount, until that has been paid. Where the purchaser fails to make the agreed payments, the seller has to reclaim the property. If it is not surrendered peaceably, he may have to resort to legal proceedings to recover possession. (See Form 22.)

Note:

1. The matter of giving credit and avoiding loss is one of the most difficult business problems. All large houses have credit managers who by specializing become very skilful in judging men.

§ 505. Where There Is No Security for the Debt

If a debt is unsecured, it is necessary to bring suit and to get a judgment against the debtor before the court will grant an execution, i.e., an enforcement of the judgment. An execution takes the form of an attachment and a sale by the sheriff of the debtor's property, advertised in the manner required by law. Household furniture and the tools used in following a trade are generally exempt from seizure. The articles thus exempted are more definitely enumerated by the statute covering this matter and vary in each state.

An execution generally holds good until the amount for which it was issued has been wholly satisfied. It can be enforced only against property within the jurisdiction of the court granting it, and if the fact should appear that there is property belonging to the debtor in another jurisdiction, it is

necessary to file a transcript of the judgment there and to take out another execution. It may be necessary to obtain a new judgment for property outside the state. In such case the suit would be on the judgment and not on the original debt.

No proceedings for the collection of debts are satisfactory. If they are harsh, poor people are oppressed; if lenient, dishonest people defraud those who trust them.

In business circles good credit is becoming a matter of character and achievement, and a day may come when the man who does not pay his debts and the man who embezzles will find it equally impossible to do business.

§ 506. Attempts to Defraud Creditor

In the case of fraud, the law generally allows execution against the person of the debtor, i.e., arrest and imprisonment. If there is reason to believe that the debtor intends to escape or to convey his property out of the jurisdiction of the court, the first step in the action to collect the debt should be an application for an order of arrest. The debtor must then give bond or go to prison. In bringing such proceedings, a reputable attorney should be consulted.

If at any time during the suit the debtor attempts any fraudulent disposition of his property, he may be imprisoned, and if as a consequence of such fraud there is no property to sell, he may be kept in prison until he pays the debt.

Where a debtor has conveyed or assigned property with intent to defraud any of his creditors, the defrauded creditor may apply to the court to set aside the transfer. Even a life insurance policy taken out for a larger amount than the circumstances of the debtor warranted at the time, or for the express purpose of defrauding his creditors, or which has a cash surrender value to the debtor, may be used to satisfy claims.

In many states the laws against fraudulent debt are not

so severe and are difficult to enforce. It is probable that more money is lost by fraudulent debts than by all the forms of outright theft combined.

Note:

1. Before trusting money or property to another, be sure that he is trustworthy. If in doubt, decide whether you can afford to lose the money. If you decide that you can, do not worry about it later.

§ 507. The Modern Theory of Credit

In business credit-giving is not a matter of favor but of business discretion. In the larger establishments the credit department is presided over by experts who investigate those who seek credit and, after ascertaining what character, business ability, and available assets the applicants possess, determine to what extent it is prudent to give them credit. The result of this procedure is that in each line of business, those who are unreliable, slack in business, extravagant in habits, and careless about obligations, find increased difficulty in obtaining credit and are ultimately forced out of business. On the other hand, those who are honest, careful, and methodical in their business dealings get the credit to which they are entitled and their good name becomes more valuable.

Any business man, whether he seeks credit or gives it, should inform himself through some of the modern works on credit and collections of the practice in regard to granting credits and making collections. As a result of careful management the losses from bad debts and business failures tend to become less, and by a survival of the fittest the modern business house in its practice becomes more careful, more economical in management, more practical in its conduct, and more ethical in its relations to its customers, its employees, and those from whom it buys.

When a business house finds itself in difficulties, the credit men representing its creditors get together, and if on careful examination there is any reasonable chance of those in charge pulling through, the creditors usually extend credit and prescribe a course of conduct that will in most cases restore prosperity. If instead, they find hopeless mismanagement, extravagance, or dishonesty, they decide on what legal steps are to be taken to save as much as possible for all the creditors. This result is usually sought through bankruptcy proceedings. In consequence the subject of bankruptcy has much importance in modern business life.

Notes:

1. In business a good character helps the debtor obtain credit.
2. The creditor needs to be a good judge of character to avoid bad debts.

§ 508. Liens

A lien is a legal claim or hold on property as security for a debt or charge. In general application, the term "lien" embraces all cases in which real or personal property is charged with the payment of a debt. The most common forms of lien are:

1. Common Law Lien. This is the right to retain the possession of personal property until some debt secured by or due on such property shall be satisfied.
2. Statutory Liens. Those liens which are provided for by statute in contradistinction to those created at common law. These liens cover cases not provided for by common law.
3. Equitable Liens. A lien upon real or personal property whether or not in the actual possession of the lienor, in form which courts of equity alone recognize.
4. General Lien. A lien upon property for a general

balance due from the owner. This is not favored and can only be established by contract, express or implied, or by custom of trade or of the parties.

5. Judgment Lien. A lien following upon a judgment, governed entirely by statute, and usually dependent upon the filing of the judgment.

6. Mechanics' Lien. A lien upon buildings for materials furnished or for labor. It can be secured by mechanics and material men. It is entirely statutory.

7. Particular Lien. A lien upon specific property for labor or money expended on that property alone.

Originally, liens applied only to chattels, but now they may be enforced in equity upon both real and personal property, or upon money in the hands of third persons. Any property to be subject to a lien must be tangible.

A lien may be waived or extinguished by the voluntary parting of possession by the lien-holder or by a sale of personal property other than in the manner prescribed by statute. A lien is discharged when payment of the debt or obligation which it secures is made.¹

§ 509. Attachment

Attachment is a legal process by means of which money or property and goods of the debtor in the county can under certain circumstances be seized as the first step in a suit to collect. In Massachusetts, New York, Pennsylvania, Indiana, and California, any suit can be commenced by attachment. In most of the states, however, it is merely a provisional remedy, incident to an action commenced at or before the time when the attachment is sued out. In New York and most of the other states it is only allowed in cases where it is necessary to prevent sale, removal, or other special circumstances.

¹ American and English Encyc. of Law, Vol. 14, page 1738.

The New York Code provides that a warrant of attachment against the property of one or more defendants in an action may be granted upon the application of the plaintiff, where the action is to recover a sum of money only, as damages for:

1. Breach of contract, express or implied other than a contract to marry.
2. Wrongful conversion of personal property.
3. An injury to person or to property, in consequence of negligence, fraud, or other wrongful act.

To entitle the plaintiff to such a warrant he must show by affidavit, to the satisfaction of the judge granting the same, that there are special reasons why such a process should issue to save the plaintiff's rights.

§ 510. Execution

After trial, if judgment is secured by the creditor, it is usually a verdict for an exact sum and costs of the action. To collect this, execution must be issued, which means that a court officer, a constable, sheriff, or marshal, is directed to levy on property of the debtor, not exempt from execution, and publicly to sell the same, and after paying the costs to turn the proceeds over to the creditor to the amount of his claim. If any surplus remained it would be paid to the debtor.

§ 511. Garnishment

"Garnishment is a proceeding in the nature of an attachment or execution by means of which credits, property or effects of a debtor in the hands of a third person may be subjected to the payment of the claims of the creditors of such debtor. The proceedings are generally spoken of as a mode of attachment or execution, but differ therefrom in two important particulars, to wit, in the case of garnishment no

actual possession of the property in the hands of the garnishee (third party) is taken, and as a rule no specific lien acquired upon the property or credits in the hands of the garnishee."²

So, for example, where a man owes another money and though he has a position and should be able to pay he does not, an order may be obtained from the court by his creditor, which will give the latter the right to collect a portion of that debt each week from the debtor's employer who, of course, subtracts it from the debtor's salary. This continues until the sum is paid in full.

Garnishment may be collected for damages, resulting from a breach of contract if they have been reduced to a certainty.

Garnishment is known in some of the states as the "trustee process," "factorizing process," and "attachment execution." It is strictly a legal remedy, although in a few states it partakes of an equitable remedy.

A person to be charged as a garnishee must have actual control and possession of the property of the debtor with which he is sought to be charged.

A garnishee is liable only for the amount owing by the debtor to the creditor at the time of the commencement of the action.

REVIEW QUESTIONS

1. How should property be sold under a mortgage? If several parcels of land are included, may they be sold together?
2. How are laws enforced? In case of a conditional sale, where the buyer fails to pay as agreed, what can be done?
3. How is an unsecured debt collected? How does an execution operate? What personal property is exempt from execution in your state?
4. How long does an execution hold good? What could be done if the debtor had property in another state?

² 20 Cyc., 1058.

5. When the claim is based on the debtor's fraud, or the debtor tries to escape or to remove his property from the state, what summary proceeding may be taken? Can a man be imprisoned for debt?
6. If a debtor transfers his property to his wife, can the creditor touch it?
7. Why is credit given in business? What is credit? How may business credit be secured?
8. What motives influence credit men when a debtor's business is in difficulties?
9. What is a lien? What is a common law lien, statutory lien, equitable lien, general lien, judgment lien, mechanics' lien? Is a mechanics' lien common law or statutory? How can a lien be waived?
10. What is an attachment? What is its object?
11. What is a judgment? Who levies an execution? What procedure follows?

CHAPTER LXXX

INTEREST

§ 512. Interest

Interest is compensation or hire for the use of money. It has been contended that the payment of interest is contrary to the principles of justice, that if a man borrows money and returns it undiminished in volume there is no ethical compulsion for him to pay more. As a practical matter, it has always been recognized in the world of business that if a man foregoes the use of his own money and lends it to another, it is proper that he be recompensed. This recompense would vary in accordance with: (1) the amount involved, (2) the period of the loan, and (3) the risk of loss. When the great governments borrow money in time of peace, there is supposed to be very little risk and the rate of interest is very low. If, on the other hand, a man without any other means desires to borrow money to start in business, the chances would be that the money would be lost and the creditor would feel justified in asking as high a rate of interest as he could legally secure. The legal rate is usually 6 per cent. When no agreement is made as to interest, the legal rate governs. In most parts of the country parties are allowed to contract for higher rates, usually limited to 8 or 10 per cent. When suit is brought on a liquidated demand, interest is claimed from the date when the claim accrued. In a suit for damages interest does not begin till judgment is entered.

Interest on a claim is generally reckoned from the date when due, or if it is a running account, from the time demand

is made for payment and payment is refused. Sometimes when an account has been running, an average due date for the time of interest will be allowed.

§ 513. Discount

Discount is interest reserved from the face of the loan. When banks loan money, they require the party borrowing the money to make out a note for the amount payable at the expiration of the loan. Then they calculate the interest from the face of the loan and subtract it from the amount they pay to the debtor. This is charging more than the nominal interest because the party does not get in advance the full amount on which he pays interest. The banks are allowed to do this. A national bank may charge on loans and discounts any rate allowed by the laws of the state in which the bank is situated, and if no rate is there fixed, the bank may charge not exceeding 7 per cent.

A note for \$1,000 payable 90 days after date, discounted, would yield \$985 to the borrower. Therefore he has paid in advance the interest on \$1,000 and gets the use of only \$985. Usually the borrower receives credit only to the amount of the proceeds, which goes to his account to be drawn on as he requires it. The further proceedings relating to the transaction have been considered in the part dealing with negotiable instruments. The discount procedure would be the same, whether the instrument discounted were a note of the party, a note in which he was payee, or a draft of which he was the owner.

§ 514. Usury

Usury and interest were formerly synonymous in meaning. All interest was usury and usury was merely a term expressing interest. Now in law it means an illegal rate of interest. In each state of the Union the law provides for a certain legal

rate of interest and in the absence of any specified rate this will prevail. In some states it is permitted to make a specified contract for a higher rate than the legal one. The penalties for violations of the usury laws vary in every state of the Union. The legal rate of interest fixed in most states is 6 per cent, although in a few states it ranges from 5 to 8 per cent. Where interest is provided for but no rate has been fixed, the law will presume that the legal rate of interest was intended. Every business man should know the laws in regard to usury for his own state. In some states it is provided that the excess over the legal rate cannot be collected. In other states it is considered an illegal contract and is therefore void as a whole and nothing can be collected. Section 95, 75 U. S. Compiled Statutes says that usurious interest need not be paid, but the usurer may sue for the principal. Usurious interest, if paid, can be sued for in double.

Pawnbrokers are allowed to charge usurious interest. This seems unjust as they are amply secured and their patrons are in most cases poor and ignorant people.

§ 515. Compound Interest

Compound interest means interest on interest where a debt has been running. Compound interest is not usury. The law does not favor compound interest, but will allow it in certain cases. Where, for instance, the debtor, not being able to meet interest payments, agrees that the interest may be added to the principal, the agreement will be good. In some states it is legal to agree in advance that if interest payments are not made when due, the amount shall be added to the principal. Compound interest will not be allowed by a court of equity in any transaction that comes before it for decision.

"Interest is generally to be so computed as to avoid the payment of compound interest, and to secure calculation of

interest upon the actual amount due for the actual period during which interest should run."¹

§ 516. Partial Payments

Where there is a note and the debtor has from time to time made payments but does not settle the amount in full, when the time comes for a final settlement it is sometimes a complicated matter to ascertain exactly how much is due. The usual rule in most of the states is as follows: "Compute interest on the principal from date interest begins to run to the date of first partial payment and add to principal, then deduct payment from that aggregate, but if the payment does not amount to as much as the interest, interest is to be computed on the principal to the next payment or payments, which will equal or exceed the interest and the balance is then to be added to the principal, and interest thereon added and payments deducted as before."²

REVIEW QUESTIONS

1. What is interest? What is discount?
2. When does the balance of an account stated begin to draw interest?
3. What is legal rate in your state? What is maximum rate?
4. Define usury and state the penalties for it?
5. To what extent can the operation of the usury laws be avoided by contract in your state?
6. What is the usual legal rate of interest on ordinary loans of money. Are bankers empowered to take a higher rate on discounting ordinary paper?
7. On what loans may a higher rate of interest than 6 per cent be taken?
8. What is compound interest? When is it allowed?

¹ 22 Cyc., 1562.
² Riney v. Hill, 14 Mo. 500.

9. What is the law as to computation of interest in regard to *time* in your state?
10. What is the rule for calculating interest on a note on which partial payments have been made from time to time?
11. What is the general rule for computing interest on an account on which payments are made from time to time when no special stipulation has been expressed?

PART XV
BANKRUPTCY

CHAPTER LXXXI

ASSIGNMENT FOR THE BENEFIT OF CREDITORS

§ 517. Introductory

When a man makes the discovery that he is falling behind, it too often happens that he loses his head and manages his affairs in the worst possible way. A man who is having difficulty in meeting his engagements should be most careful to pay all his small bills. The small creditors are more likely to make trouble than the larger ones and are harder to make terms with than the men with big claims. The fewer claims there are to be dealt with, the easier it is to get time and to make terms. Rent, salaries, and all small current bills should be carefully paid. In the next place, the larger creditors should be treated fairly and openly. Ordinary human nature postpones, and hopes for some unexpected good fortune to come at the last moment. It would be wiser in many cases to recognize the gravity of the situation betimes and to post the larger creditors and to act on their advice. The credit men of reputable houses are experts in straightening out involved businesses and are much more likely to find a way out than the man or men immediately concerned.

If in such a case there are not a multitude of indignant creditors for small amounts, the larger creditors will try first to help the debtor pull through, and if that is not possible, will be likely to agree to a compromise that will put the insolvent on his feet again without the delay, loss, and prejudicial publicity of going through bankruptcy. If there are but a few creditors, they may agree to an assignment to

trustees named by them who will settle up the affairs with least expense and delay.

When his creditors are willing, an insolvent man may always assign his property to someone for the benefit of his creditors, instead of going into bankruptcy. The proceedings necessary for an assignment of this nature are prescribed by the state laws. The statutes of the state where the insolvent resided would have to be consulted, and the prescribed procedure closely followed.

"Voluntary assignments for the benefit of creditors are transfers without compulsion of law, by debtors, of some or all of their property to an assignee, or assignees, in trust, to apply the same, or the proceeds thereof, to the payment of some or all of their debts, and to return the surplus, if any, to the debtor."¹

A general assignment is the transfer of all or substantially all of the assignor's property to an assignee; whereas a partial assignment conveys only a portion of the debtor's property.

A special assignment is a transfer of some specific article, directly, to some favored creditor for his exclusive benefit.

§ 518. Rights of Debtors

Generally, any debtor has a right to make an assignment of his property. The fact that a debtor is insolvent will not be a bar unless there is a statutory provision regarding this. Banks, partnerships, corporations, etc., can with certain qualifications make assignments. The practical bar in most cases is the fact that making an assignment is an act of bankruptcy and some few dissatisfied creditors can at once institute bankruptcy proceedings.

In the jurisdictions where a married woman has the same individual rights as her husband, she may make an assignment and with her husband's consent may assign the community

¹ Burrill on Assignments, Sec. 2.

property belonging to them. A husband may, however, assign the community property without his wife's being a party to the conveyance. When an assignment is made by an infant or an insane person it is voidable but not void. A joint debtor cannot assign joint property for the benefit of joint creditors unless with the consent of the other joint debtor.

§ 519. Rights of Creditors

In order to be a valid assignment there must be a complete transfer of the title to the property to be assigned. There must be no right of redemption in the debtor. A delivery of the property in some manner is also a necessity for a valid assignment. In real estate a title passes to the assignee only upon delivery of the deed.

In some states the assent of the creditors to an assignment acts as a sufficient consideration for such a transaction, but where there is no consent there is no consideration so far as the creditors are concerned. In that case the property assigned may be seized on a legal process by any creditor who has not given his consent, or when such consent has not been given until after the seizure.

§ 520. Void Assignments

There must be no attempt by the debtor to force the consent of the creditors to an assignment, and any assignment so made may be set aside as void in attempting a compromise or a composition. Likewise an assignment made by a solvent debtor for the purpose of extending time is void. An assignment, however, will not be void where the debtor was trying to save the property from an execution or attachment.

No assignment, the terms of which will hinder and delay the creditors beyond the time that is reasonably necessary to carry out its purpose, is valid. An assignment is not valid

which gives the assignee the power to decide what debts shall be paid or which gives him power to prefer certain creditors.

§ 521. Rights and Duties of an Assignee

An assignee should be properly authorized to pay claims in such order and priority as they are entitled to be paid by law. An assignee will not be responsible for the neglect or default of his agents, provided he used reasonable care and prudence in selecting them, and in holding them to strict responsibility for their acts, and where a covenant has been made on the part of the assignee to act justly and faithfully in the execution of his duty. An assignee may by the terms of the assignment be required to give an accounting from time to time. He may also be given the power to hire such clerks, agents, etc., as may be necessary for him to carry on the work of the assignment and he may pay for such services from the property turned over to him for assignment.

If an assignment demands that creditors file claims with the assignee before payment this must be done, and it may also require the claims to be presented within a certain time. It may also provide that such claims must be proved. An assignment, however, cannot provide that creditors shall not be paid until an accounting between them and the assignor has been approved and the exact amount of the claim has been agreed upon.

A reasonable recompense for the assignee may be provided by the terms of an assignment for his services in carrying out the assignment. If an exact and certain sum is fixed by statute, this sum will be considered to be the recompense provided for in the assignment. If, however, the assignment fixes exactly the sum to be paid the assignee it will not be void, because the court may reduce the amount to that fixed in the statutes.

An assignee must see to the payment of all expenses out

of the assigned property for preparing assignment, payment of any suits arising from the assigning of an estate, attorneys' fees, etc. He must not pay any expenses of the debtor in defending suits brought by creditors against him or for obtaining the benefit of bankruptcy or insolvency laws.

§ 522. Form of the Assignment

An assignment of real property comes under the provisions of the Statute of Frauds and must therefore be in writing, even though it also includes personal property. The form of an assignment has little effect on its validity. Where a debtor executed an instrument, if he does so with the intention that it shall be an assignment, it is good no matter what its form or what it is called. Following this rule, chattel mortgages, bills of sale, leases, powers of attorney, real estate mortgages, etc., have been held to operate as assignments for the benefit of creditors.

It is usually a statutory provision that the name and address of the assignor and the nature of his business must be given in the assignment. If, however, the assignment fails to state some of these provisions but gives the residence of the assignor so that he may be identified, it will be valid.

The assignee must, with reasonable certainty, be designated in an assignment and there must also be a reasonable certainty as to the articles of property to be conveyed. There need be no valuation of such articles given. The name and addresses of the creditor, and amounts, date, and nature of the debt, are all that need to be stated on the list of liabilities. One seal is sufficient for an assignment where it is required to be under seal and is signed in the name of a firm.

§ 523. Revocation of Assignment

"An assignment before delivery to the creditors may be revoked, but an assignment which has been delivered cannot

be revoked without the consent of both the assignee and the creditors who have affirmed the trust by filing their bill to enforce it, or after the creditors have been notified and have manifested their consent, or after the rights of creditors have otherwise attached thereunder."²

Where an assignment gives creditors a certain time for consideration and acceptance, the assignor may not revoke the assignment before the time allowed has expired. An assignment is not revoked by death or disability of an assignee or by the death of the assignor or the resignation of the assignee. A trust will always remain whether there is an assignee or not, and in such a case an assignee may be appointed to execute the assignment by a court of equity.

§ 524. Insolvency

Insolvency is the state of a person who cannot pay his debts as they mature. This is the real point of insolvency, for though a debtor's estate may amount to much more than his debts, yet if he has not money enough on hand to pay as the debts come due, he is practically and legally insolvent.

In insolvency as opposed to bankruptcy, although the debtor's property is taken and divided among his creditors he still remains liable for the payment of any unsatisfied balance remaining due. Apart from this fact, insolvency is practically the same in procedure and condition as bankruptcy. If an insolvent business can scrape together enough money to meet bills as they come due, it can go on indefinitely and none of its creditors can institute legal proceedings. It would be possible for a skilful business man to start a business on borrowed capital, in which case it would be insolvent from the start. If his borrowed money did not come due for some time, he meanwhile could do business and make money and

² Corpus Juris, Vol. V, page 1140.

when his loans came due, pay part and renew the balance until he succeeded in accumulating assets in excess of his indebtedness and making the business solvent.

REVIEW QUESTIONS

1. What are the powers of an assignee? How may he resign?
2. What is a general assignment?
3. When may it be set aside?
4. What compensation is allowed an assignee?
5. What are preferences in an assignment?
6. What is an assignee's duty as to accounting?
7. How must an assignee qualify?
8. What is a voluntary assignment for benefit of creditors?
9. Where a debtor refuses to make an assignment for the benefit of his creditors, have the creditors any means of forcing him into liquidation?
10. Must an assignee perform assignor's contract to deliver goods? If assignee has accepted payment on account?
11. In an assignment for benefit of creditors, what is the position of the assignee, representing such creditors, as to the property of the estate?
12. May one partner make an assignment for the benefit of the firm's creditors?
13. What is the general personal liability of an assignee for damages resulting from his acts or omissions?
14. If an assignee before distribution has notice of a claim, but the creditor has failed to put in proof of claim, though notified to do so, may the assignee distribute the estate without regard to the claim?
15. What is the difference between an assignee and a receiver?
16. Under what conditions will an assignment for the benefit of creditors be set aside?

CHAPTER LXXXII

BANKRUPTCY PROCEEDINGS

§ 525. Receivership

There are two kinds of proceedings by which creditors can force a closing out of the business of a person who is insolvent and who has committed an act of bankruptcy. The first is to bring a suit in equity to have a receiver appointed, who then takes charge of the business, sells the property, and pays off the claims under the direction of the court.

The difficulty with the suit in equity is, that if any of the other creditors prefer to start proceedings in bankruptcy, the equity proceeding fails, and all must come in under the bankruptcy proceeding.

One of the "acts of bankruptcy" is that the debtor "being insolvent, applied for a receiver or trustee for his property, or because of insolvency a receiver or trustee has been put in charge of his property."

For the purposes of the bankruptcy law a person is deemed insolvent whenever the aggregate of his property (excluding any that he has concealed or disposed of to defraud his creditors) shall not at a fair valuation, be sufficient in amount to pay his debts.

§ 526. Bankruptcy

The second method is to go into the federal court and to bring bankruptcy proceedings. All bankruptcy proceedings must be brought in the United States court. No state court has jurisdiction in bankruptcy.

Bankruptcy is a more serious matter than insolvency and is

usually fatal to a business. Bankruptcy means that a man or a business has been adjudged by a court to be a bankrupt and that control of the business has been put into the hands of a trustee or receiver appointed by the court, to make such disposition of it as may be for the best interests of the creditors. A business is usually insolvent when it goes into bankruptcy, but it would be easy to mismanage a solvent business in such a way that it would become bankrupt without losing its solvency.

The bankruptcy laws are enactments of Congress designed to afford a means of distributing fairly among creditors the assets of a failing business. Before these were adopted the law in each state on the collection of debts differed, and when a business house failed there was strenuous competition among its creditors to see who could save himself, the result being much fraud and unfairness. Now, all of the state procedure has been practically superseded by the national laws administered by the federal courts, and the result is better for both creditors and debtors.

The great advantage to the debtor is that if he has been only unfortunate and not fraudulent, he may after the settlement of his affairs obtain a discharge from all his past debts and start afresh to build up a new credit, with the assurance that when he gets a little money it will not at once be taken from him on some old claim.

The advantage to the creditors is that all fare alike, and no one is preferred in his claims. The proceedings also give pause and opportunity to make a compromise to the advantage of all parties.

Note:

1. An honest debtor who deals fairly with his creditors, can usually make a settlement with his creditors without bankruptcy proceedings.

§ 527. Voluntary Bankruptcy

Any person may file a bankruptcy petition on his own initiative asking the court to adjudge him a bankrupt. It is immaterial how small the amount the person may owe when he makes his application. The expense of the proceedings would, however, be an effectual bar to small debtors, and it is not usual for anyone to make voluntary application unless he is insolvent and is being pressed by creditors. Under such circumstances, it is sometimes better for a person, when he can see no other way out, to anticipate and by so doing to avoid a hopeless struggle against the inevitable. He may settle with his creditors as fairly as possible before it is too late and endeavor to get a fresh start in life, profiting by his experiences.

In order to go into voluntary bankruptcy, the debtor files a petition in the federal court for his district, stating the number and amount of his debts and the amount of his property. The creditors are then served with notice and with copies of the petition, and the further proceedings are the same as in cases of involuntary bankruptcy.

A partnership may be a voluntary bankrupt as may a married woman owning property, and likewise a minor. If an alien has property within a court's jurisdiction he may become a voluntary bankrupt, the requirements of residence, place of business and domicile being waived by the provisions of the Bankruptcy Act. Any corporation, except a municipal, railroad, insurance, or banking corporation, may become bankrupt.

Instead of going into bankruptcy a debtor may make an assignment for the benefit of creditors first. The practical difficulty here is that any of his creditors may commence an action of bankruptcy if not satisfied with the assignment, and the whole matter will then have to be settled in a bankruptcy court.

§ 528. Involuntary Bankruptcy

A person may be adjudged an involuntary bankrupt when he owes not less than \$1,000 and has committed an *act of bankruptcy*. The following are the legal acts of bankruptcy:

1. To convey, transfer, conceal, or remove, or to permit to be concealed or removed, any part of his property with intent to hinder, delay, or defraud his creditors or any of them.
2. To transfer while insolvent any portion of his property to one or more of his creditors with intent to prefer such creditors over his other creditors.
3. To suffer or to permit, while insolvent, any creditor to obtain a preference through legal proceedings, and not have vacated or discharged such preference at least five days before a sale or final disposition of any property affected by such preference.
4. To make a general assignment for the benefit of his creditors, or being insolvent to apply for a receiver or a trustee for his property, or to have had a receiver or a trustee put in charge of his property because of insolvency.
5. To have admitted in writing his inability to pay his debts and his willingness to be adjudged a bankrupt on that ground.

The person who has committed any such act of bankruptcy is liable to have a petition filed against him at any time within four months thereafter, asking that he be adjudged a bankrupt.

§ 529. Persons Who May Bring Bankruptcy Proceedings

Bankruptcy proceedings may be brought by any one or more creditors to whom the alleged bankrupt owes not less

than \$500, if the total number of creditors is less than twelve. If there are twelve or more creditors, three or more must join in bringing the proceedings and their claims must aggregate more than \$500.

§ 530. Persons Who May Become Involuntary Bankrupts

Bankruptcy proceedings may be brought against any natural person, except a wage-earner or a person engaged chiefly in farming, and against any unincorporated company and any corporation owing debts to the amount of \$1,000 or over, except a municipal, a railroad, an insurance, or a banking corporation. A municipal corporation, a railroad, an insurance company, or a bank cannot be thrown into bankruptcy, for reasons of public policy. In event of any of these institutions becoming insolvent, creditors can apply to a court of equity for the appointment of a receiver to take charge of the assets and any business on behalf of the creditors.

REVIEW QUESTIONS

1. When is a person insolvent? What two proceedings are open to creditors in such case? Which is usual? Why?
2. What is bankruptcy? What is the result of bankruptcy? What are the bankruptcy laws? What courts administer the bankruptcy laws? What advantage are these to the debtor? To his creditors?
3. What is voluntary bankruptcy? What is the procedure? May a partnership be a voluntary bankrupt? A corporation? An alien? A minor? Why is voluntary bankruptcy usually chosen instead of an assignment?
4. What is involuntary bankruptcy? How much must an involuntary bankrupt owe? What are the five legal acts of bankruptcy? How long after such an act may proceedings in bankruptcy be brought?

5. Who may institute bankruptcy proceedings? How many must join? How much must the bankrupt owe them?
6. Against whom and what may bankruptcy proceedings be brought? What persons are excepted? What corporations are excepted? What can be done in case of the insolvency of a corporation?

CHAPTER LXXXIII

BANKRUPTCY PROCEEDINGS (CONTINUED)

§ 531. How Bankruptcy Proceedings Are Instituted

In bringing bankruptcy proceedings, the creditor or the creditors (as the case may be) file a petition in the federal court located in the judicial district where the bankrupt resides or has his place of business, or in a district where any property belonging to the bankrupt is located. A copy must be served on the bankrupt.

The petition usually asks for the appointment of a receiver to protect the property until a trustee can be elected. The receiver is to be appointed by the court and is to be given charge of the bankrupt's property until the first meeting of creditors is called.

If the bankrupt defends the proceeding, it will be necessary to have a jury trial before the court can pronounce him a bankrupt. Proceedings in bankruptcy are usually conducted before a referee in bankruptcy appointed by the court. Usually such suits are not defended. After the expiration of the twenty days which the bankrupt is given in which to make his reply, the court enters a decree adjudging him a bankrupt, and appointing a receiver if a receiver is necessary. This decree is called an adjudication in bankruptcy. If the insolvency and act of bankruptcy of the alleged bankrupt are not shown, the petition is dismissed.

§ 532. The Referee

The referee in any judicial proceeding is an officer appointed by the court to investigate and report a decision as

to some feature of a matter in suit. An accounting is usually conducted by a referee. In bankruptcy referees are appointed for two years, and each county should have one resident referee. Referees should be competent and not related in any way to the judges of the federal courts in the districts in which they reside and are sworn in as referees.

The duties of referees are to consider all petitions that are referred to them by the clerks of the courts and decide whether they should be granted or dismissed; to administer oaths to witnesses; and to demand the production of documents required in cases before them. Also they have judicial power in taking possession of the bankrupt's property when the United States judge is sick, absent, or unable to act. Generally they are authorized to act judicially in all such matters as arise in the causes before them, except as to compositions and discharges. A referee should be skilled in accounting and in law, but he must not be interested in the cases before him, or practice as a lawyer in bankruptcy proceedings, or purchase any property of a bankrupt. He is paid by fees and costs attached to the different steps and proceedings in each case.

§ 533. Procedure

The bankrupt is then required to file a sworn schedule of all his property showing location and value, and a list of all the claims against him, giving names, addresses, and amounts due each. This schedule is filed in triplicate, one for the clerk, one for the referee, and one for the trustee. The court may disallow any claims which it believes to be unfounded.

A meeting of all creditors whose claims have been allowed is then called, and they elect a trustee to take charge of the property. The trustee must be elected by a majority of the creditors as to both number and amount. That is, he must be chosen by a majority of all the creditors whose claims have

been allowed, and by those holding a majority in amount of the claims.

Creditors who have some security for their claims are not allowed to come in to vote on the bankruptcy proceedings, so far as those claims are concerned, unless the security is not large enough to cover them. In this latter case they may vote on the amount of the claim over and above the value of the security, but not on the full claim.

The creditors may require the bankrupt to submit to an examination as to his property and any other matters pertinent to the bankruptcy proceedings.

§ 534. Creditors

As soon as the trustee has been elected, the creditors should proceed to file their claims with him. The proof of a claim consists of an affidavit by the creditor stating the nature and the amount of the claim, that it is due and owing, and what security, if any, he has for it. If it consists of a promissory note, or a written instrument, he must file the instrument with the affidavit.

Claims may be filed at any time within one year after the adjudication. In a litigated claim, if final judgment is rendered within 30 days before or after such expiration of one year, then claim may be filed 60 days after such judgment. If a creditor has secured a judgment more than four months before the petition was filed, he will retain whatever lien on real estate the state allows him. If the judgment came within the four months' period it will give the creditor no advantage.

The bankruptcy proceedings are carried through only in case the debtor and his creditors can come to no compromise. Very frequently the debtor offers to compromise for so many cents on the dollar, and if this is a fair offer it is usually better to take it than go through with the long and costly procedure in bankruptcy.

Any creditor who thinks that the bankrupt is not offering enough may offer to take over the stock himself and to pay the other creditors a higher dividend. This usually brings a higher offer from the bankrupt if he is trying to defraud his creditors. The creditor making the offer must also pay the expenses of the proceeding up to the time the compromise is made.

If there has been any fraud in bringing the proceedings, or in concealing property which ought to have been given up for the benefit of creditors, any of the defrauded creditors may come in within one year after a discharge has been granted and have it revoked.

Note:

1. It is generally better to compromise instead of continuing a bankruptcy proceeding if the offer is at all a fair one. The creditors practically never receive a larger proportion of their claims by delay; usually, because of the heavy expenses, they receive much less than if they had settled the matter in the first place.

§ 535. Rights and Duties of Receiver

In bankruptcy proceedings when it is absolutely necessary to prevent loss a receiver is appointed temporarily to preserve the property until a trustee can be elected by the creditors. He does not conduct the business unless so directed, but merely takes care of the goods, pays taxes and other dues, and hires a caretaker, if necessary, to look after the premises during the interim between the commencement of the action and the election of the trustee. If there are any goods in stock which are of a perishable nature or would soon go out of style and become unsalable, the receiver may, with the court's permission, sell these and deposit the money realized

in a bank to await the election of a trustee. It is the receiver's duty to apply to the court for such permission.

The receiver is appointed by the court and must give a bond for the faithful performance of his duties. He is entitled to fees based on a percentage of the amount of property handled.

§ 536. Rights and Duties of Trustee

The trustee is elected by the creditors to take over the bankrupt's property, to reduce it to cash, to pay off all charges, and then to distribute the remainder among the creditors as provided by law. The trustee may be a person or a corporation authorized to act in that capacity and with an office in the judicial district.

The trustee must give a bond, the amount of which is fixed by the creditors at their meeting, or if they fail to do so, by the court. The creditors may at any time require that this bond be increased. The bond must have two sureties. The trustee is responsible only for his own misdeeds, not for anything which the bankrupt does.

The trustee's first duty on his appointment is to get together all the property of the bankrupt, to collect any debts owing to him, by suit if necessary, and to turn everything into money in the quickest manner possible, without unduly sacrificing the assets. As a general rule, if the property of the bankrupt is in the form of a business, it is necessary to keep the business running for some time in order to realize as much as possible.

It is the trustee's duty to conduct this business in whatever manner he considers most advantageous, and to sell the property for the best price he can obtain. The trustee must dispose of all leases, and everything else owned by the bankrupt, except the property exempted from the claims of creditors by the state laws.

From the receipts he would pay taxes due, cost of preserving the estate, filing fees, court costs, an attorney's fee, and wages due. Servants and employees for three months prior to proceedings are entitled to be paid before other claims are settled. Then he would discharge any secured debts, to the value of the security.

The order of priority of claims is as follows:

1. Taxes due.
2. Costs of preserving the property after petition was filed.
3. Filing fees paid by creditors and costs of reclaiming property.
4. Costs of bankruptcy proceedings.
5. Wages due workmen, clerks, and salesmen earned three months prior to filing petition, up to \$300 to each claimant.
6. Debts having priority by laws of state.
7. General claimants are paid dividends as the estate is liquidated.

If after paying these items there remains enough to pay 5 per cent of the total amount of all the other claims, the creditors are entitled to have a dividend declared within thirty days after the debtor has been adjudicated a bankrupt. If not, they must wait until the trustee has collected a sufficient amount.

Afterwards the creditors are entitled to have dividends declared from time to time until the entire amount of all the property in the trustee's hands has been paid out. This may be a tedious process.

When he has distributed the final dividend, the trustee makes up his accounts and presents them to the court asking a discharge. He is then entitled to fees based on the value of the property which has gone through his hands.

§ 537. Rights and Duties of Bankrupts in Bankruptcy Proceedings

It is the duty of the bankrupt to submit to examination if his creditors require it, to hand over to the trustee in bankruptcy all property in his possession, with the exception of what he is entitled to claim as exempt, and to give full information of all his affairs in order to aid the trustee in straightening out matters.

The bankrupt may offer to compromise the claims against him by paying a certain amount on the dollar. He must file a list of all his property and all the claims at the same time. If a majority of his creditors, who also hold a majority in amount of the claims against him, sign a written consent to the compromise and the court approves it, the claims will then be compromised and the bankruptcy proceedings dismissed. Where a compromise is arranged, the bankrupt must pay the expenses of the proceedings up to the time of the arrangement.

A bankrupt cannot be subjected to arrest for any claim involved in the bankruptcy proceedings, except for contempt of the court having charge of the proceeding or for attempting to escape from its jurisdiction so as to avoid an examination. He is entitled to claim as exempt such property as the state law allows him. This usually consists of necessary household furniture and wearing apparel and such tools as are necessary for carrying on a trade.

When the bankrupt has given an honest account of all his debts and belongings, and has done all in his power to aid the proceedings, he is entitled to a discharge. This relieves him of the legal obligation to pay in full any of the debts which were included in the proceedings in bankruptcy. He cannot be proceeded against at law unless he acknowledges in writing that such debts are still due and owing. But the moral obligation to pay them still remains, and if at any future time he finds

himself able, he should feel in honor bound to pay the remaining amounts due.

It is important that the bankrupt should apply for his discharge within the year after filing his petition, or his right is gone forever, and he will still be liable for the full amount of his debts.

Notes:

1. Honesty is always the best policy in bankruptcy proceedings.
2. A fair compromise should always be accepted.

§ 538. Preferred Creditors

Any preference shown to any creditor the effect of which is to give the favored creditor all or a greater percentage of his claim than the others of the same class, will be set aside. The trustee may go back four months prior to the filing of the petition in bankruptcy, and scrutinize any payment, assignment, or transfer of goods or judgments taken against the bankrupt. The voidable preferences are those to creditors. The test is whether by such action the favored creditor received a larger percentage of his claim than other creditors of the same class. The bankrupt must have been insolvent when he made the preferences. The favored party must "have had reasonable cause to believe that the debtor was insolvent." The trustee must bring suit to set aside the preference, for the transaction is "voidable," not "void."

REVIEW QUESTIONS

1. What courts have jurisdiction in bankruptcy? Where do these courts get their authority? What is the first step in bankruptcy proceedings?
2. For what purpose is a receiver appointed in bankruptcy proceedings? Who appoints the receiver? What is an adjudication in bankruptcy?

3. What are the functions of a referee in bankruptcy? Who appoints referees?
4. What is the jurisdiction and power of a referee in bankruptcy, and what compensation is he entitled to?
5. After adjudication what is the next step? What must the bankrupt's schedules contain?
6. What is the object of the meeting of creditors? What is necessary to the election of a trustee? What voting right has a secured creditor?
7. When do creditors file their claims? What is the usual proof of a claim? How long after the adjudication may claims be filed? If a creditor has secured a judgment does it give him any advantage? On what property of a debtor is a judgment a lien in your state?
8. What is the effect of a compromise? If a creditor objects to compromise offered by bankrupt, what can he do?
9. What is the duty of a receiver on taking possession of property? What should a receiver do with trust funds in his possession?
10. What are the duties of a trustee in bankruptcy? How is he appointed? In what order must he pay claims?
11. Who can require the examination of a bankrupt? Who may accept a compromise? Can a bankrupt be arrested for any claim while bankruptcy proceedings are pending? What must he do to claim a discharge? When must a bankrupt apply for his discharge?
12. What constitutes a preference under the Bankrupt Act as to payments to creditors?
13. Is any payment of money by a debtor to his creditor within four months of bankruptcy open to attack as a fraudulent preference? A debtor executed a chattel mortgage in favor of a money lender in consideration of a present cash advance, which, to the money lender's knowledge, was intended to be and was paid to a creditor. Is the chattel mortgage valid as against the other creditors?
14. A trader in insolvent circumstances sold his stock in trade and deposited the purchase money to the credit of his account in bank. At the time an overdue note of his was held by the bank and he gave the bank a check to cover the same. Three months later he was bankrupt. Is such payment a preference and therefore to be set aside?

CHAPTER LXXXIV

DISCHARGE IN BANKRUPTCY

§ 539. Discharge of a Bankrupt

The advantage of bankruptcy proceedings to the bankrupt is that one month after being adjudged a bankrupt he may ask the court for his discharge. The judge will hear the application and will hear the trustee or other parties in interest in opposition. After hearing the application, the judge will discharge the applicant, unless it is shown:

1. That he has committed an offense for which he could be imprisoned.
2. That he has destroyed, concealed, or failed to keep books from which his financial condition might be ascertained.
3. That he obtained money or property on credit by a materially false statement in writing.
4. That he has removed, destroyed, or concealed or permitted others to remove, destroy, or conceal any of his property, to hinder, delay, or defraud his creditors, within four months prior to his bankruptcy or during the proceedings.
5. That he has had a discharge in voluntary bankruptcy within the six months prior.
6. That in the proceedings he has refused to obey any lawful order of, or to answer any material question approved by the court.

The trustee would not be allowed to fight the bankrupt's discharge unless a creditors' meeting authorized such action.

In cases where the bankrupt has failed honestly, there is not usually opposition to his discharge and he is then free to begin business again hampered only by impaired credit, the natural result of his miscalculations.

§ 540. What Debts Remain Undischarged

After a discharge in bankruptcy, the bankrupt still remains under obligation to pay any debts which were not due at the time of the discharge. He is still liable for rent on a lease not yet expired which falls due after the discharge in bankruptcy. It is the trustee's duty to sell such a lease if possible, but the bankrupt remains liable to the landlord in case the purchaser fails to pay.

The bankrupt should take care to include all debts due in the list which he files, because any debts not mentioned there remain valid claims against him after his discharge. Of course, if the creditors come in themselves and prove their claims in the proceedings, the bankrupt is then no longer liable. Also, these creditors may have a right to have the proceedings set aside.

There are certain claims which the law provides that a proceeding in bankruptcy shall not discharge. It does not cover taxes, nor the duty to support wife and children. Nor does it release the bankrupt from claims against him because of injuries to other people or because of fraud or wrongful acts. If a bankrupt's wife has divorced him, it does not release him from his duty to pay alimony. It does not discharge debts of a fiduciary who misappropriated collections, as an attorney who thus robs his client. Partial payments on a debt discharged by bankruptcy will not revive the entire debt.

Note:

1. No forms on bankruptcy are given because of the number of them and in either voluntary or in-

voluntary bankruptcy the services of a lawyer would be needed. Complete series of such forms may be obtained at any legal stationer's.

REVIEW QUESTIONS

1. What is the effect of a discharge in bankruptcy? What are the causes that may prevent a discharge?
2. What debts would remain against a bankrupt after his discharge? If the bankrupt has failed to list certain debts, what is the effect?
3. Will the discharge in bankruptcy of a surety release him from contribution to a cosurety who subsequently pays the debt?
4. A being in financial difficulties, his creditors, with the exception of B, agree to accept 50 cents on the dollar. As an inducement to B, A secretly agrees to give him 75 cents. B accepts. What rights has B against A, and what effect does this contract have on the whole transaction?

PART XVI

BAILMENTS AND COMMON CARRIERS

CHAPTER LXXXV

BAILMENT

§ 541. What Is Meant by Bailment

A bailment is a delivery of personal property to one person by another person to be used or kept for some particular purpose and to be returned thereafter. The person to whom the property is given or delivered is known as the "bailee" and the person making the delivery as the "bailor." Bailment is distinguished from a gift or a sale by the fact that, although delivery is made, title does not pass. Unless, however, the property so delivered is, by the express or the implied agreement of the parties, to be returned, the transaction is usually viewed as a gift or a sale. But if the agreement is that the property is to be returned, even though in a different form, it will be considered a bailment.

§ 542. Kinds of Bailment

There are two general classes of bailment. These are: (1) bailments for the benefit of one party, and (2) bailments for the benefit of both parties.

Bailments for the sole benefit of one party are known as gratuitous bailments, and there are two subdivisions: (1) bailments for the sole benefit of the bailor, and (2) bailments for the sole benefit of the bailee.

Bailments for the benefit of both parties are divided into: (1) pledge or pawn, (2) the use of a thing for hire, and (3) hired services about a thing.

These classes are again divided as shown by the following summary:

1. Bailments for sole benefit of the bailor:
 - (a) Mandate or *mandatum*.¹
 - (b) Deposit or *depositum*.
2. Bailments for the sole benefit of the bailee:
 - (a) Loan without charge or *commodatum*.
3. Bailments for the joint benefit of both parties:
 - (a) Pawn, pledge, or *pignus*.
 - (b) Hiring of a chattel or *locatio rei*.
 - (c) Delivery of a chattel to have something done to it or about it:
 - (1) Delivery for custody or care.
 - (2) Delivery for work or services upon.
 - (3) Delivery for carrying or transport.

§ 543. Mandate and Deposit

In these cases the bailee is not paid for what he does. A goes off for a vacation, and asks a neighbor to take charge of a box of silverware. The neighbor does not have to do this and might properly suggest that a safe-deposit company would be safer. If the neighbor does take the box he is bound to take care of it. If he is careless and because of such lack of care the box is stolen, he will be liable to A for its value. The kindly neighbor is not obligated to take the greatest care, but if he undertakes the care of it at all he must take ordinary care and precaution.

A man who finds a lost article, or some property left with him by mistake is a gratuitous bailee, and must not be guilty of negligence in caring for the property.

Mandatum and *depositum* are of rare occurrence. In a simpler state of society a man was often asked to put a neighbor's gun in order or to break in his colt, or to take care of something for him, but that day is past.

¹ The italicized words are the Roman law terms.

§ 544. Commodatum or Loan

When a man borrows any article of personal property he is a bailee for his own benefit and must take the greatest care of the article, and if it is lost, injured, or stolen he is liable for the least lack of care or slightest negligence. On the other hand, if the loss or damage occurs when he has taken all precautions, he is not legally liable for the loss. If a man borrows a diamond pin, wears it carefully, and at night puts it in a small safe from which it is stolen by burglars, he cannot legally be held for its value.

§ 545. Pledge or Pawn

A pledge is a transfer of the chattel as security for the payment of a debt or the fulfilment of some other obligation. A person who makes a business of loaning money on the pledge of personal property is called a pawnbroker. It is not often that ordinary chattels are given as pledges except in transactions with pawnbrokers. But it very often happens that bills, notes, stocks, and bonds are used as security for money borrowed. In such cases the term "collateral security" is generally used. Where personal property is used as security for a debt, it is usual to give a chattel mortgage.

A pledge may be the result of a written contract, but it may be made merely by transferring the property. In the latter case the pledge will remain in force so long as the pledgee retains possession of the property.

To make a valid pledge, delivery is absolutely necessary. Bills, notes, and corporate stocks must be indorsed in blank when used as collateral security. In this case some writing should accompany the pledge in order to define its terms and to prevent misunderstandings. A pledge of stock is usually made by simply depositing the certificate indorsed in blank with the pledgee. In the case of corporate stock, the pledgee

may have the stock transferred on the books of the company and new certificates issued in his own name.

In most cases where collateral security is given, it is provided that if the debt is not paid when due the pledgee may sell the security and, after paying expenses of the sale and the debt secured, turn over any surplus to the pledgor. In such cases the pledgee, even though given the right to sell at a private sale without notice, would gain greater security by giving notice and selling at public sale, the notice given to be a formal notice in writing, specifying the time and the place of the sale. In many states sales of pledged property are regulated by the laws.

In general, the pledgor, upon discharge of his obligation, is entitled to the return of the specific property pledged, but corporate stock has a different standing, and if no special agreement has been made, the pledgee is not liable for its conversion by reason of his sale or other disposition of the certificates delivered to him so long as he keeps at all times an equal number of shares of the same class and value to be delivered to the pledgor upon discharge of his obligation.

§ 546. Hiring of a Chattel

This is a bailment for mutual benefit. Property is delivered to a bailee to be used by him, paid for by him and returned. If A hires an automobile, he must use it with care and skill and pay for its use. If an accident occurs despite his care and skill, he is not liable to the bailor. If he lacked skill or let someone who lacked skill operate it, or if he was careless or reckless, he would be liable to the bailor. If the accident happened by reason of defects in the automobile, the bailee would not be liable to the bailor.

If the bailee hired the automobile for one day or for a certain trip and kept it longer or went further, he might make himself liable for any damage, whether he was at fault or not.

If the bailee injures a third person or third persons in an automobile, he alone is responsible, unless the cause was some defect in the automobile of which the bailor should have warned him.

If a third person wrongfully injures the car, the bailee is not responsible and the bailor stands the loss.

§ 547. Bailment for Custody, Services, or Transport

The delivery of property to a bailee to keep it safely, or to work upon it, or to convey it somewhere for a compensation to be paid by the bailor, the bailee to return it, is technically called *locatio*. Under this heading there are three cases:

1. Hired custody of a thing, where the bailee takes care of property for the bailor for a compensation, such as a warehouseman.
2. Hired services upon a thing, where the bailee is to work upon property for a compensation.
3. Hired carrying of a thing, where the bailee is to carry or transport goods for the bailor for a compensation, such as a bailment to an express company to carry the bailor's goods.

All of these cases come within the general rules relating to bailments as set forth in the following sections.

§ 548. The Contract of Bailment

Bailments for the sole benefit of one of the parties are not strictly contracts, for they lack the essential element of a consideration. If there were a consideration, the arrangement would benefit both parties and this would throw the transaction into another class. This bailment may also be created by the voluntary action of the bailee, as where he finds and cares for a lost article. It may also be created involuntarily by the property in question being put on the

bailee's land during a flood or some other unforeseen occurrence.

Bailments for the benefit of the bailee are created only by agreement, as it requires the assent of the bailor to lend the property, and the request of the bailee to borrow the property, and the delivery of the property must follow. A mere promise to lend cannot be enforced, for there is no consideration.

Bailments for the benefit of both bailor and bailee can be created only by contract, since the minds of both parties must meet on the subject and there is always a mutual consideration in the benefit to each party.

The execution of a contract of bailment does not, of course, take place until delivery is made by one party or the other, as the case may be.

§ 549. Property Rights

A bailment must be distinguished from a sale or a barter. In a sale the title of the property passes from seller to buyer, while in a bailment the title does not go to the bailee but remains with the bailor. In a bailment the identical property, though perhaps in a different form, is to be returned. In barter some other sort of property is to be returned.

A bailment may be made with a power in the bailee to buy if he so desires. In this case the bailment becomes a sale when the bailee expresses his approval of the goods.

In the case of a mill where grain is to be ground, the grain of one owner may be mixed with the grain of another owner. This, however, is still a bailment, provided that the owners make no special provisions. If the bailor does not wish his grain to be mixed, he must specifically direct otherwise.

A bailor may not be the true owner of the property. For example, a man hires an auto and puts it into a garage. Here there are two bailments, one of the auto owner and the hirer,

and one of the hirer and the garage owner. A person who finds property and then takes it to someone else to appraise it has created a bailment. He is a bailor and as such is entitled to the property against anyone but the true owner. A bailee cannot dispute the title of the bailor.

§ 550. Duties of the Bailee

When the bailment is for the sole benefit of the bailor, the bailee is not forced to perform the bailment even though he has promised to do so. This is because there is no consideration in this class of bailment. Once the bailee is in possession of the goods, however, he must not use the article except as is necessary for the proper care of it; he must not by negligence injure, lose or destroy it; he must take such care of the property as an ordinarily careful man would of his own property; and he must return the property at the termination of the bailment with any increase or profit gained from it while in his possession.

When a bailment is for the sole benefit of the bailee, the bailee must take greater care of the property than in any other sort of bailment, for the reason, of course, that it is for his benefit. He is liable for slight negligence. He is not liable for an inevitable accident, but is liable for an accident or injury to the property which with due care he could have prevented. At all times his first thought must be of the borrowed property rather than of his own. He must not loan the property to another unless with the bailor's consent. Any deviation from the terms upon which the property was first loaned may result in the bailee's either having to insure the article or his being liable for conversion (wrongful use) of the property. The bailee must return the property with any profits at the end of the bailment.

When the bailment is for the benefit of both parties, the bailee's duties should be fixed by the contract, but in the

absence of such provisions the bailee must use such care as a man would ordinarily use with his own property. He is liable for negligence; he is not liable for inevitable accidents or for the wilful acts of a third person. He has the right to exclusive use of the property for the specified time, and he may sue a third party for disturbance of this right. He must use the property only for the purpose stated in the contract, and he is liable to third persons for injuries received by them due to his negligence in using the property, unless the bailor knew that such accident or occurrence was likely to happen and failed to warn the bailee. The bailee must pay the bailor for the use of the property, and if no definite price has been fixed a reasonable sum will be due. If the property is destroyed without fault of bailor or bailee, the bailee must pay the bailor the reasonable value of the use of the property up to the time of its destruction. The bailee must return the property at the end of the bailment, paying the bailor for any avoidable damages done to the property.

A warehouseman would be liable for goods stolen, even though there was no negligence on his part.

The keeper of a bathing establishment is liable for the loss of clothing; also for valuables, unless he provides a safe for them.² The proprietor of a barber shop kept for public patronage is liable to a customer for the value of his hat deposited on a hatrack in the shop while the customer is being shaved and which disappears from the shop and is thus lost, such proprietor being under these facts a bailee for hire as to the customer's hat. Where, however, the proprietor has provided a closet and an attendant whose business it is to receive hats and coats, the proprietor is not liable if the customer leaves his hat or coat on a hook in the shop near the door and it is stolen.³

² Bird v. Everard, 4 Misc. Rep. (N. Y. C. Pl.) 104.
³ Trowbridge v. Schriever, 5 Daly (N. Y.) 11.

§ 551. Dissolution of Bailment

A bailment may be terminated or dissolved by any one of the following methods:

1. By the elapsing of the time for which the thing was bailed.
2. By the accomplishment of the object for which the thing was bailed.
3. By the act of the parties, as an agreement between them to end the bailment, or where by the nature of the bailment or the terms of the bailment either party may terminate it at will.
4. By the destruction of the subject matter of the bailment.
5. By the conversion of the thing bailed, where the bailee uses or disposes of it against the terms of the bailment.
6. By operation of law, where the bailee purchases the thing and becomes owner.⁴

It is to be understood, however, that the dissolution of the bailment by any of the ways above stated does absolve the parties from any liabilities and obligations imposed by the bailment so far as they are not completely fulfilled.

REVIEW QUESTIONS

1. What is a bailment? In a bailment, who has title to the property? Who has possession?
2. What are the gratuitous bailments? Explain each kind.
3. Distinguish pledge from mortgage.
4. Define collateral security.

⁴ Am. & Eng. Encyc. on Bailments, Vol. III, p. 764.

5. When corporate stock is pledged, must the identical stock be returned? Explain.
6. Collateral security has been deposited with the payee of a promissory note. How should the payee proceed to satisfy the note from the collateral?
7. What is bailment for custody? Bailment for services? Bailment for transport?
8. What kinds of bailments are not contracts? Why?
9. What kinds of bailments are contracts? Why?
10. Can a bailee refuse to return an article bailed on the ground that the bailor is not the real owner?
11. What difference is there between the care demanded of the bailee, when the bailment is: (a) for his own benefit, (b) for the benefit of both, (c) for the benefit of the bailor? Why?
12. How may a bailment be terminated?
13. What is the duty of the bailee as to returning the property bailed?

CHAPTER LXXXVI

COMMON CARRIERS

§ 552. Common Carriers

The bailee known as a common carrier has been mentioned in the case of hired services upon a thing, under bailments for the benefit of both parties. This bailee assumes the greatest liability of all. Now, however, by special contract the bailee generally avoids the extreme liability which he had to assume under the common law.

A common carrier undertakes, for compensation, to transport property from one place to another. He is liable for wrongfully refusing to transport any goods, and he insures and is liable for all damage or loss unless such damage or loss was brought about by the act of God (storms, floods, hurricanes, etc.), or by a public enemy, or by the state or the civil authorities, or by the shipper himself by not properly packing or addressing the property.

A common carrier, so-called in contradistinction to a private carrier, serves the public and must serve all who come. He may, however, lawfully refuse to carry any goods which are dangerous or which are out of his ordinary line of business or beyond his carrying capacity. Otherwise, a common carrier must carry goods for all bailors without preference for either one or the other in rates, or care of property, or rapidity of transport.

The failure of a carrier to deliver goods to the consignee might arise from: (1) the taking of goods by some judicial process, (2) the delivery of them to an adverse claimant who is the true owner (here the carrier must, at his own risk, judge

correctly who is the rightful owner of the goods), and (3) the right of stoppage in transitu having been exercised by the consignor. The last case is the most frequent, and is more fully explained in § 113.

A carrier has the right to insure the goods for the time that they are in his possession in order to protect himself, but he cannot sell the goods unless in case of great emergency or to prevent loss. A carrier may also bring an action to regain or to hold possession of the goods against trespassers or for injuries to the goods. He cannot, however, bring suit if the owner of the goods has brought an action first.

§ 553. The Lien of the Common Carrier

A common carrier is given a lien on goods in his possession; that is, if the owner or the consignee fails to pay his reasonable charges for transporting the goods the carrier may retain them until such payment is made. This right of a carrier is recognized everywhere, but he may, by special contract, waive that right. A shipper is primarily liable for the payment of freight, and the consignee may also become liable by agreement, or where the bill of lading recites that he is to receive the goods on payment of the freight and he accepts the goods, but even in this case the consignor is still liable.

A carrier has no lien upon a shipment for debts on other consignments previously incurred by the shipper. If, in any case, the carrier holds goods and the shipper sues, the carrier will not have to pay more than the value of the goods minus all the claims of the carrier.

§ 554. The Termination of the Bailment

As a rule, if a carrier fails to deliver the goods for any reason, including the act of God, he is not entitled to compensation for the carriage. But if the goods are interrupted on the journey, with delivery to a rightful owner or

a stoppage in transitu, the carrier is entitled to a pro rata payment of freight. The liability of a common carrier ends when the goods are delivered to the consignee or when, after due notice, a consignee leaves the goods beyond a certain time in the hands of the carrier. When this last occurs the carrier becomes a warehouseman.

§ 555. Interstate Commerce Commission

This Commission was formed under an act adopted February 4, 1887, entitled "An Act to Regulate Commerce." This Commission has jurisdiction over complaints, and after a hearing may determine and prescribe reasonable rates, regulations, and practices, and may also order reparation to shippers who have been damaged and who have brought action. It may order a carrier to stop discrimination or preference of one bailor over another, and it may institute and carry on proceedings for the enforcement of the law, and may inquire into the business of all common carriers, subject to the provisions of the regulating statutes, and it may from time to time inspect the accounts and records of common carriers. Common carriers must file annual reports with the Commission and any others that may be required. The authority of Congress to pass this act is based on that clause in the Constitution which provides that "Congress shall have power to regulate commerce with foreign nations and among the several states and with the Indian tribes."

§ 556. Bills of Lading

A bill of lading is the written receipt given by the carrier to the bailor for goods received by him to be carried, and is signed by some responsible agent or member of the company. The laws governing the transfer and issuance of bills of lading and the responsibilities of shippers and carriers are

now embodied in a Uniform Bills of Lading Act which has been adopted by the following states and territories:

Alaska	Maryland	Ohio
California	Massachusetts	Pennsylvania
Connecticut	Michigan	Rhode Island
Idaho	Minnesota	Vermont
Illinois	Missouri	Washington
Iowa	New Hampshire	Wisconsin
Louisiana	New York	
Maine	North Carolina	

This act calls for a standard bill of lading as regards size and form.¹ The advantage is that shippers in the states having this standard form need not scan each form to find out whether or not it contains a new requirement or responsibility. Bills of lading have a two-fold character, being compounded of a receipt and a contract.²

Bills of lading are spoken of as negotiable instruments. The word quasi-negotiable is sometimes used and is perhaps more accurate than the first naming. A mere indorsement, however, without a delivery will not constitute a transfer. The mere delivery of a bill of lading without a written indorsement, if made with the intention of passing title to the goods, is sufficient to effect that purpose, even though the instrument contains no words of negotiability.

A bill of lading represents the goods therein receipted for only during their transit, and until they are completely delivered to the person entitled to them. The transfer of a bill of lading by someone in possession of it can give no better title than would the transfer of the property itself by the same person.

A "clean" bill of lading is one issued for the transportation

¹ See Chapter CX.

² Schauler on Bailments, Sec. 475.

of goods by water, which is silent as to the method of carrying the goods. A "clean" bill of lading imports that the goods are to be carried under deck and has the same force as an express agreement to that effect.

A ship's bill of lading is usually drawn in triplicate. One copy is generally sent to the consignee by the ship which carries the goods, a second is sent to him by another conveyance, and a third is kept by the merchant or shipper. These three are, however, but one bill of lading. If the copy held by the vessel, or "ship's bill" as it is commonly called, is different from those delivered, the latter must be considered as the true evidence of the contract.

Bills of lading frequently have conditions or qualifications written on them which limit the carrier in some manner or which place a certain amount of liability on the shipper. It is the duty of the shipper to examine carefully the bill of lading before signing, since once signed he cannot refuse to be bound by any or all of the qualifications by saying that he did not understand or know that they were on the bill of lading.

§ 557. Carriers of Passengers

A carrier of passengers is not held to the degree of liability that a carrier of goods is, for the reason that passengers are supposed to be able to care for themselves. The carrier, also, has not the same right of control over passengers that he has over goods. He is not responsible for the act of God or of a public enemy; but he must use the greatest possible care and vigilance at all times. Where a passenger is primarily negligent or the passenger and the carrier are both negligent, the carrier is excused from liability.

The payment of fare is not necessary to make one a passenger, and policemen and mailmen or other persons riding free are considered as passengers. The carrier may eject a

passenger for refusal to pay fare, drunkenness, or disorderly conduct, but the ejecting must be done with care or the carrier will become liable for any injury occurring. Where a passenger is put off for disorderly conduct, the amount of his ticket unused must be returned to him.

A carrier must deliver the traveler's baggage at the end of the journey unless destroyed by inevitable accident or a public enemy, and if he delivers it to the wrong person on a forged order he will be responsible for its value. By baggage is meant the ordinary and reasonable amount of clothing for a passenger according to his station in life, and such other articles as are carried for convenience, comfort, or protection. A distinction is made between baggage that is in custody of the carrier and hand-baggage that the passenger retains in his own care. The carrier is only liable where the baggage is in its custody. Under the present regulations of the government, liability is limited to \$100 unless a higher value is stated and a special charge paid for the assumption of the extra risk. Common carriers usually try to limit the amount of their liability, and in some states the courts permit this to be done.

In most cases passengers are made to pay in advance, but where they do not and refuse to pay at the end of the trip the carrier has a lien on baggage which belongs to them, but not on clothes on their persons.

§ 558. Telephone and Telegraph Companies

Telephone and telegraph companies are not common carriers but are regarded as quasi-public servants, held to serve the public without discrimination, and held responsible as bailees for hire and not as carriers. They may be held for losses arising from failure to observe the most exact degree of care, or for the least negligence.

A statement in a telegraph blank that the company will not

be liable for mistakes is against public policy and is therefore void; but such a statement may diminish the amount of damages to some extent, though not if the mistake arose from culpable negligence, fraud, or misconduct.

REVIEW QUESTIONS

1. What are common carriers?
2. To what extent is a common carrier liable as insurer? State the liability of a common carrier at common law. To what extent can the carrier limit his liability under such law?
3. Distinguish between the liability of a common carrier for goods received by it for transportation, and the liability of a person for goods deposited with him for safe-keeping.
4. A shipped a barrel of paint via the New York Central. It arrived empty. Can A recover? What might affect his claim?
5. B owns a vessel plying regularly between two ports with passengers and freight. The ship is destroyed by fire at sea. Is B liable for the freight lost?
6. When are freight charges payable to a common carrier?
7. What is carrier's lien? State remedy of a carrier when shipper fails to pay. On what condition only may a lien be retained?
8. When is freight considered as earned by carrier?
9. Does a carrier waive his right by delivery of freight to consignee before payment?
10. What are the general obligations of a common carrier of goods? Of a carrier of persons? Why is there any difference in the liability?
11. When goods are ordered of a New York corporation by a Chicago business house, whose agent is the carrier? Who can bring suit if the goods are lost in transit?
12. To what special supervision, if any, are common carriers subjected?
13. Describe the Interstate Commerce Commission, giving its powers.
14. What is a bill of lading? To what extent is it negotiable?
15. What twofold character has a bill of lading?

16. As between the ship-owner and the shipper, what is the character of the bill of lading in respect to the goods received? As between the ship-owner and an assignee of the bill for value?
17. A ships goods on a bill of lading which has references to a classification under which the goods are sent. Goods are destroyed in carrier's possession. Can A recover full value, claiming ignorance of limited liability of carrier?
18. Has the master of a ship the power to bind the owner by having him sign a bill of lading before the goods are brought on board? Give reasons for your answer.
19. Is the carrier of passengers responsible for passengers' baggage? What is baggage? Would a jeweler's samples be legal baggage?
20. What is the rule as to telephone and telegraph companies? Are telephone and telegraph companies common carriers? Can they be sued for negligence?

PART XVII

PATENTS, TRADE-MARKS, AND COPYRIGHTS

CHAPTER LXXXVII

PATENTS

§ 559. Constitutional Authority

The Congress shall have power . . . to promote the progress of Science and Useful Arts, by securing for limited times to Authors and Inventors the exclusive right to their respective Writings and Discoveries. (Art. I, Sec. 8, Constitution of the United States.)

§ 560. Introductory

A United States patent is an exclusive privilege given by the government to inventors of patentable improvements, whereby the inventor or his assignee has the sole right "to make, to use, and to vend" his invention in this country for the period of seventeen years. After this time the public is free to use it. Since 1861 the life of a patent may not be extended without a special act of Congress.

Section 24 of the Rules of Practice of the United States Patent Office says:

A patent may be obtained by any person who has invented or discovered any new or useful art, machine, manufacture, or composition of matter, or any new and useful improvement thereof, not known or used by others in this country or described in any printed publication in this or any foreign country before his invention or discovery thereof, or more than two years prior to his application, and not patented in a country foreign to the United States on an application filed by him or his legal representatives or assigns more than twelve months before his application and not in public use or on sale in the United States for more than two years prior to his application, unless the same is

proved to have been abandoned, upon payment of the fees required by law and other due proceedings had.

When filing his application the inventor is required to swear to an affidavit consisting of most of the statements above.

§ 561. Who May Obtain a Patent

Any citizen of the United States may apply to the United States Patent Office for a patent. An alien may apply for a patent in this country, stating in his affidavit that he is an alien and of what country he is a subject. When the patent is granted, the party to whom it is granted is termed the "patentee."

During the late war no enemy aliens applied for patents, but those who already had patents still in force or applications not yet allowed, had these seized by the Alien Property Custodian, who, after seizure, granted licenses to American concerns to take these patents and work them.

§ 562. What Inventions Are Patentable

The Patent Office has always provided that anything to be patentable must be: (1) an invention, (2) new, and (3) useful.

1. *The Element of Invention.* Some things are not patentable because, although they are new things, they are not invented things. It is not invention to produce a device or process which any skilful mechanic or chemist could produce if required; or to produce an article differing from an old thing only in skilfulness or excellence of workmanship; or to substitute superior for inferior things; or to enlarge and strengthen a thing; or to change one part of a thing; or to duplicate one or more of the parts of a machine; or to use an old invention or process for a new purpose.

2. *The Element of Novelty.* An invention to be patentable must be new. If the alleged invention has been known before, if it has been patented in another country, or if it has been described in any book published in any language, it cannot be patented here.

In deciding a case on this point one court held that:

It may be laid down as a general rule, though perhaps not an invariable one, that if a new combination and arrangement of known elements produce a new and beneficial result, never attained before, it is evidence of invention.

3. *The Element of Utility.* Another requirement of patentability is utility. To possess this quality, a thing or a process must be capable of producing a result and the result must be a good one. Processes and devices which cannot be used to perform their specified functions have no utility, and therefore patents for such subjects are void. This rule applies even to cases where, by merely adding new elements to useless contrivances, highly useful inventions are produced. Patents are not, however, held void for want of utility merely because the things covered by them perform their functions but poorly.

§ 563. What Is Unpatentable

A discovery of a principle cannot be patented. The use of steam to move a piston, the use of electricity to transmit signals, the principle of the internal combustion engine, and the use of aeroplanes are examples of most valuable principles that are unpatentable. The particular device used by each pioneer inventor could be patented if new and useful. Morse could patent his sounder and receiver and his alphabet, but if another inventor could have invented better devices, he might have superseded the Morse system. The Wright

brothers could patent their own aeroplanes and apparatus but could not secure a monopoly of the use of aeroplanes.

Likewise a property of matter cannot be patented by the first man who chances on it.

A result cannot be patented, though the device to produce the result may be patentable.

An aggregation may not be patented, where the parts are not dependent on each other. The combination of a rubber tip and a lead pencil was held not patentable.

In like manner, the new use of an old invention, changes in form, substitutions, and arrangements are not patentable. Many cases are, however, uncertain and it may be worth while, in some such cases, to go to the expense of trying to secure patent protection.

The sale or public use of a device for more than two years before patent is applied for may bar it from a patent.

§ 564. Procedure to Obtain Patent

An applicant may prosecute his own case but he is advised always to employ an attorney. Great care should be taken in selecting a patent attorney, for contrary to general belief it is not easy to obtain a patent now and a great deal depends on the skill of the attorney. Years ago when the Patent Office first opened, it was not hard to obtain a patent, for the field was open and new and patentable inventions were constantly being made. Now practically all of the applications are for improvements of inventions already known, and only a very few are what are known as "basic inventions." For this reason a great deal depends on the attorney's skill in writing the application.

A "caveat" was a notice filed in the Patent Office that the inventor had invented a certain thing, describing the article. This prevented the granting of a patent to another for the same thing, without giving the first man an opportunity to

establish his priority of invention. This method of caveat is now no longer in use.

Preliminary Search. It is prudent to pay for a preliminary search. More than a million patents have been issued. It is always possible that any particular device has already been patented. It does not cost much to have a preliminary search made. The search should be made by a skilled patent attorney, to have any value. No one who has not looked into the subject can realize the enormous number of patented inventions.

Making a Model. It is always well to have a model or a specimen of the article to be patented. After the attorney has looked this over and heard the explanation of it, he can generally tell fairly well from his experience and knowledge of the art whether it is patentable. If he considers that it may be old he advises a preliminary examination.

The model and explanation in rough form are then sent on to the attorney's correspondent in Washington, who will go to the Patent Office and search the files of that particular class of inventions. He finds among the patents that have been granted those that are most like the one to be applied for and forwards copies of them to the attorney. If the attorney finds that the prior patents are so close as to be practically duplicates, he will, if he is the right sort of attorney, advise against proceeding further.

Preparing the Application. If, however, the old patents do not cover or approximate the improvement, the attorney will advise his client to proceed and will prepare the application for the Patent Office. Generally three copies of the papers are prepared. One is for the Patent Office, another for the attorney's files, and a third for the inventor. The draftsman draws the model in as many views as he thinks necessary and the attorney writes out the necessary specifications from these plans. The description must be "in such full, clear,

concise and exact terms as to enable any person skilled in the art or science to which it pertains," to use the invention. Then he draws up formal claims for all that his client can possibly hope to cover. When sent to the Patent Office, they must be accompanied by the government filing fee of \$15. It is in drawing these claims broadly and inclusively that the patent attorney shows his skill. The inventor swears to these and to the affidavit before mentioned, and the papers are ready for filing in Washington.

The writing of claims for a patent is an art in itself. "A claim covers and secures a process, machine, a manufacture, or a composition of matter, and never the function or result of either." It requires much information, intellect, and practice to know how much to claim in an invention, and to make a clear, concise statement where every word must do its broadest duty. Where a description sets out an entire machine, for example, a claim may be made for a machine as a whole, but it is wiser and safer to pick out the really new parts of the machine, parts which you are particularly desirous of not having infringed, and claim these particular parts. The claim for the whole may, of course, be put in the application, for an applicant may have as many claims as the attorney desires or thinks necessary.

§ 565. Procedure in the Patent Office

When the papers are received at the Patent Office, they are looked over quickly to see that the signatures of inventor, witnesses, and notary public are all properly affixed, and if no omission appears, the matter is turned over to the examiners for that class of article. These examiners are known as primary examiners. The inventor or his attorney is sent a filing receipt which records what class the application is in and the application number and the filing date. This number

and date must be mentioned in all subsequent correspondence as it helps the examiner to find that particular case.

The application then waits its turn for examination. The length of time before the inventor receives a statement depends on the number of cases ahead of it in that class and also upon the number of examiners there are to do the work. During the war so many of the examiners left to join the army that work in some classes was as much as four or five months behindhand. Usually, however, the case should be reached in about a month.

If the examiner finds, after looking over the case, that there are claims allowed in other patents which conflict with the application, or that there are errors in writing, spelling, etc., he will write a statement to that effect, giving his reasons for rejecting the case. These statements are called "office letters."

The attorney will then make an amendment and also reply with an argument showing why the claims in the prior patents cited do not anticipate the pending case. Probably more than one of these letters will be written before final action is taken by the examiner.

A claim in order to be held must be able to stand up under the separate tests of: (1) invention, (2) novelty, and (3) utility. Besides these three important elements the claims must be specific, so that a person reading them will have a clear and satisfying idea of what the inventor has accomplished. When claims are rejected it is for the lack of either one or another of these elements, and therefore in amending the claims the lacking or weak element should be put in or strengthened as the case may be.

§ 566. Interference Proceedings

If it happens that two or more applications practically duplicating each other are pending allowance together, the

examiner declares an interference. The attorney for each party confers with his client and affidavits are written and sworn to stating when the idea of the invention was first conceived, when a model was first made and giving various other facts which will help determine priority. These are then sent to the Patent Office, and a notice of hearing is sent to the attorneys. At this hearing or trial it is established which of the parties first thought of the device and worked out the first model. The winning party in the interference then proceeds with his application, while the losing party or parties have to abandon their cases. An interference may also be declared where one of the parties has already had a patent granted, then if the applicant can prove that he was the prior inventor a patent will be issued to him also, as the Commissioner of Patents has no power to cancel a patent.

Proof of Priority. In order to prove prior invention, it is necessary that an inventor shall have at least one witness other than himself. It is prudent to show the first rough sketches of a new invention to two friends who are not interested in the patent. These persons should sign their names as witnesses and note the date on the sketch.

Then, if an interference arises later, the inventor will have written proof of the time when he really made the invention. If as he goes on with the work, he makes material changes and improvements, each of these should be evidenced as to date in the same way. Many an inventor has lost out because his only proof was his own unsupported testimony, and his own uncertain recollection of the date.

§567. Final Decision

When the examiner thinks that the application is in condition for allowance, notice of this is sent to the applicant's attorney. If, however, the examiner feels that the invention will never be patentable, he finally rejects the application by

notice. If the applicant is willing to spend a little more money and the attorney thinks it worth while, an appeal may be made to the Board of Examiners-in-Chief. If the result of this is still unsatisfactory, he may appeal to the Commissioner of Patents and finally to the Court of Appeals for the District of Columbia.

§ 568. Government Fees and Grant

Aside from the attorney's fee there are also government fees. The first one is the filing fee of \$15 which must be sent along with the papers when they are first filed. The notice of allowance sent to the attorney states that the final government fee of \$20 must be paid within six months from the date of allowance or the application will lapse. The final fee may be paid as soon as the applicant wishes, and just about one month from the time of payment the original patent is issued. This means that the inventor has the privilege of working that patent for seventeen years from the date of the issue of the patent, after which time it is open to the public for use. This official instrument is called "letters patent" and consists of a grant, specification, claims, and drawing, bound together and stamped with the Patent Office seal.

§ 569. Marking a Patented Article

Before the grant of a patent is given by the Patent Office, the inventor or the owner of an article on which a patent is pending, would do well to mark on the article "Patent Pending." This gives notice to the public that an application has been filed, and therefore if anyone else has been working upon the same invention he would probably have an interference proceeding on his hands at the very beginning. After the grant has been allowed, the owner or inventor of the article

must place on the article patented the words "Patented, — 19—," or words or abbreviations to that effect.

§ 570. Design Patents

A design patent may be obtained by anyone who has invented a new, original, and ornamental design for an article of manufacture. The affidavit sworn to by the applicant contains the same statements as the affidavit for a patent.

Patents for designs are granted for the term of three and one-half years, or for seven years, or for fourteen years. Where the applicant has requested that the patent issue for one of the shorter terms, he may always, upon payment of the additional fee, amend his application by requesting a longer term.

The proceedings in design applications are substantially the same as in applications for patents. The following order should be kept in making a design patent application:

1. Preamble, stating name and residence of the applicant, title of the design, and name of the article for which the design has been invented.
2. Description of the figure or figures of the drawing.
3. Claim.
4. Signature of applicant.

When a sufficiently clear representation of the design can be made by a drawing, a model will not be required. The drawing must conform to the rules for drawings of mechanical inventions.

§ 571. Foreign Patents

If a foreign application is to be made on the same invention, it must be filed in the foreign country *before* the United States patent issues. And likewise if a foreigner desires a United States grant after having patented an invention in his

country, the application must be filed here within twelve months from the *filing date* of the *foreign* application.

In most foreign countries, annual payments increasing from year to year are required. After a few years, unless the patents are worked profitably, these payments become very onerous. Also the patents must be worked within two to three years in the country granting the patent. American inventors have sunk much money in trying to protect patents in foreign countries.

§ 572. Assignments and Licenses

The owner of a patent or design patent, or the applicant for a grant, may assign all or part of his interest to another. As in the case of a contract, good and sufficient consideration must be given in exchange for this. An assignment may be made at any time from the filing of the application to the end of the seventeen-year grant. It must be filed in the Patent Office. The assignment states the name of the patentee, the number and date of the patent, or of the application, the consideration for the assignment, the name of the assignee, the date, the signature of the patentee, and the verification of witnesses.

Once, however, an assignment is made, the control of the patent is no longer in the patentee. After an assignment of an interest in a patent, the owner also retaining an interest, each co-owner has an equal right and anyone of the co-owners may bring a suit for infringement. Each co-owner can grant licenses and shop rights.

A patentee may grant a license to someone to manufacture and sell the patented article, but this does not amount to an assignment. The license form states the name of the patentee, the number and date of the patent or application, the length of time for which the license is granted, the date, the signatures of the patentee and witnesses. A shop right is a right

given by the patentee to a shop or factory to manufacture and sell that article in a limited locality only. In other words, a shop right is a restricted license.

§ 573. Joint Inventors

Joint inventors are entitled to a joint patent; neither of them alone can obtain a patent for an invention jointly invented, and neither of them can dispose of the patent or assign the patent or grant a license without the consent of the other.

§ 574. Infringements

An infringement is the unlawful manufacture, use, or sale of a patented or copyrighted article.

In order to have a true infringement of a patent, the so-called infringing article must be *equivalent* to the invention.

In infringements of a process the courts have held that:

Whatever likeness may appear between the product of the process described in the patent and the article made by the defendant, their identity is *not* established unless it is shown that they are made by the same process.

A patent for a machine or manufacture is infringed by him who, without ownership or license, makes, or uses, or sells any specimen of the thing covered by any claim of that patent. It is not an infringement of a patent to make, use, or sell any specimen of any invention described but not claimed therein; because a patent covers only what it claims.¹

Substitution of an equivalent for an ingredient of some combination claimed in a patent will not prevent a charge of infringement; but the substitution of something not an equivalent will prevent infringement.

If anyone accomplishes the result attained by a patented mechanism by means substantially different from those of the patent, he does not infringe. If the mode of operation of

¹ See Walker on Patents.

the new mechanism is substantially different from the mode of operation covered by the claims allowed in the patent, there is no infringement.

The subject of infringement is much too large to be discussed here, and it is well to take the matter up with the attorney who obtained the patent immediately upon discovery of an infringing article.

§ 575. Official Publication

The *Official Gazette* is a magazine published by the Patent Office each week. It contains sketches and short descriptions of all patents issued during the week prior to publication, including design patents and trade-marks. Anyone may subscribe for this by the year or purchase single copies by writing to the Superintendent of Public Documents, Government Printing Office, Washington, D. C.

§ 576. Practical Information

Americans are naturally inventive and from time to time wonderful inventions have been made and will be made. Most men, however, who invent, who back inventors, or subscribe to stock in companies to exploit new inventions lose whatever time and money they spend in this way. It has been roughly estimated that 1,000 patents are granted each week and that 2,000 applications are refused. Out of all these new devices, it is probable that 1 per cent are profitable to the inventors and their backers. If anyone is curious along this line let him spend some time reading the files of the *Official Gazette* and see the enormous number of futile and forgotten inventions.

The Value of Inventions. Few people have any real idea of the chances against the financial success of a new invention. In most cases the invention has been anticipated and no patent will be granted. If a patent is granted, it is then in shape

to sell or litigate. To exploit a patent is in most cases a formidable undertaking. In a few cases a sale can be made at a fair price to some reliable concern. Usually the inventor offers it in vain, then after a time he becomes discouraged and lets it alone. This is the fate of most inventions that cumber the files of the Patent Office. Sometimes, the inventor will work the rest of his life trying to get someone to take up his invention. Many times he will go in with promoters and organize a company to "put it on the market." Sometimes by this plan he is frozen out and becomes an embittered man for the rest of his days. Other times a lot of credulous people are persuaded to take stock and they lose what they put in.

It is customary to beguile inventors and investors with wonderful tales of the fortunes made by those who backed up the Bell telephone and a few other remarkable inventions. Less is said of the thousands who have invested hard-earned savings in unsuccessful inventions.

Few inventions are valuable. Of those that are valuable, few are handled so as to profit those who finance them. It is usually a long and difficult process to bring an invention to a profit-making basis and most inventions never reach this point.

REVIEW QUESTIONS

1. Who grants patents? By what authority?
2. What is a patent? How long does it last? Who can secure a patent? What may be patented? What are the three elements of patentability?
3. What things are unpatentable? In each case, why?
4. What are the steps to obtain a patent? What is the object of a preliminary search? What are the features of an application?
5. What is the procedure in the Patent Office? What is meant by a caveat?

6. What is an interference? What is the procedure in such cases?
7. What right of appeal has an inventor whose claim is rejected?
8. What are the government fees? How should a patented article be marked?
9. What is a design patent? How long does a design patent run?
10. What must be done to secure a foreign patent?
11. What is an assignment? What is the effect of assigning a one-half interest in a patent?
12. What is a license? What is a shop right?
13. What are the rights of joint inventors?
14. What is infringement? What is the remedy in case of infringement?
15. How may a patent right be lost?

CHAPTER LXXXVIII

TRADE-MARKS

§ 577. Description

A trade-mark is a distinguishing mark, device, or symbol used by a manufacturer or a merchant on his goods to identify them or advertise them as his goods in contradistinction to the goods of another. Its purpose is to distinguish or set apart one man's merchandise from that of another.

"The function of a trade-mark is to point out the maker or vendor of the article to which it is attached. . . . It must be designed to indicate the owner or producer of the commodity, and to distinguish it from like articles made by others."¹

§ 578. Common Law Trade-Marks

An exclusive right to a trade-mark is given by the common law, and it is no new thing but has existed for many years. A trade-mark is acquired by the one who first adopts it, uses it on his goods, and sells goods with the trade-mark attached. Any person, citizen or alien, may by this method acquire the right to the use of a trade-mark. The test of right is priority in use. The first user has the better right. It is not always easy after many years to bring evidence to show when use of a particular trade-mark first began.

Within the last fifty years the federal government has passed laws for registering trade-marks. These laws do not give the right, but make proof of the right easier and allow suits against infringers always to be brought in the federal courts. (See § 574, "Infringements.") A good trade-mark

¹ 150 U. S. 463.

should be attractive, easy to remember, and must be different from any used by competitors. So much do trade-marks differ in appeal and effect that care in selecting will add many dollars to sales.

§ 579. Essential Elements of a Trade-Mark

A trade-mark that can be acquired as an exclusive mark must have certain essential elements as follows:

1. The mark should be distinctive, but no ordinary descriptive word may be used. The word "Spearmint" as applied to chewing-gum could not give an exclusive right. A geographic word cannot be used. "Elgin" as applied to watches could not be protected as a trade-mark. A generic name as "Holstein Butter" could not be used. A surname cannot be used, as "Robinson's Cough Drops." The use of all these terms which cannot be protected as trade-marks may in some cases be protected by the courts in other ways. (See Chapter XC.)

2. A trade-mark is adopted by being attached to the goods or the packages. A trade-name used only in advertising or in signs on a place of business and not attached to the articles or their containing packages cannot be claimed as a trade-mark.

3. Priority in use is the sole method of acquiring the right to a trade-mark. Even under registry laws, priority in use must precede the right to register. To use a trade-mark means to attach it to goods and then sell the goods with the trade-mark attached.

4. The business must, of course, be a lawful business. Where all traffic in intoxicating liquors is forbidden, no man could secure rights to a trade-mark on wines and brandy.

5. If the articles to which the trade-mark is attached be fraudulent or if their sale involves a fraud upon the public, the right cannot be enforced in the courts.

§ 580. What May Not be Used

1. *Geographical Names.* No one has the right to the sole use of the name of a locality. It is not distinctive, because anyone else may use it. Sometimes the name of a foreign place may be used when its use is not intended to deceive anyone as to its origin, as "Vienna," a trade-mark for bread made in this country.

2. *Patented Inventions.* When the Singer patents expired the company that owned the patents claimed the word "Singer" as a trade-mark. The courts held that when a patent expires, the exclusive right to the name could not be continued, and that anyone making a sewing machine under the expired patents could call it a "Singer Sewing Machine."

3. *Descriptive Names.* These may not be used because they are not distinctive. "Rubberset" brushes is descriptive and therefore not good as a trade-mark. "Ivory" is a good trade-mark for soap because it is not descriptive, but would not be allowed for teething-rings, because in the latter case it would be either descriptive or deceptive.

4. *Personal Names.* In many cases articles come to be known by the names of the manufacturer, as "Stetson Hats." But such a name gives no exclusive right and another man of the same name could come later, make the same article and attach his name. So many men named Baker have started as chocolate-makers, that the owners of the original Baker's chocolate have had much costly litigation trying to enforce their rights.

5. *Letters, Numbers, and Marks.* These may be used if not descriptive, but if "A No. 1" has a meaning in the particular trade, it may not be used as an exclusive trade-mark.

6. *Any Misleading Name.* The proprietor of a laxative medicine sold widely as "California Fig Syrup" could not protect the name because it was not fig syrup but a compound of senna that he sold. Judge Taft said:

This is a fraud upon the public. It is true that it may be a harmless humbug to palm off on the public as Syrup of Figs what is Syrup of Senna, but it is nevertheless of such a character that a Court of Equity will not encourage it by extending any relief to the person who seeks to protect a business which is most different and is dependent upon such deceit.²

"Gold Medal" where no gold medal has been awarded was held not good. Any word used as a trade-mark which gives a false impression as to the quality, origin, or ingredients of the commodity will not give exclusive rights to the user.

§ 581. What Can be Used

It is necessary that the trade-mark be a non-descriptive word or mark or picture. Therefore most of the best trade-marks consist of a word or words arbitrarily made or applied. "Sapolio," "Kodak," and "Domino" applied to their various articles are good trade-marks.

Any picture, insignia, design, or mark not open to the objections that have been noted, may be used as a trade-mark. And such design may be used in connection with a word or words. When a man wants to use his own name, he may have it worked out in unusual or fantastic type. The name cannot be held, but the style and design will be a valid trade-mark.

The advertising columns of our magazines are full of the best trade-marks that capable advertising men can devise. The ideal trade-mark should be easy to remember, simple in design, different from any other, capable of being attached to the goods or their containers, if possible suggestive of high qualities, and not open to any of the objections that have been mentioned in the preceding section.

² Worden v. California Fig Syrup Company, 187, U. S. 519.

§ 582. The Common Law Right

Priority in use is the origin of the common law right to the ownership of a trade-mark. The law then protects the exclusive right and no other man will be allowed to use the trade-mark for a similar commodity. The reason is twofold.

First, it is a fraud on the public who are deceived by the deceptive use of a stolen trade-mark. The public are to be protected from what is an obvious fraud.

Second, it is a wrong to the man who owns the trade-mark and by costly advertising and careful manufacture has made it valuable.

The owner of the trade-mark has his remedy in the courts against the infringer. He may enjoin the fraudulent use by suit in equity and he may also sue for damages.

§ 583. Trade-Marks Are Not Assignable Apart from Business

A trade-mark cannot be assigned save with the business or manufacture with which it is connected. The owner of "Sunny Jim" as a trade-mark for a breakfast food could not sell to another the separate right to use the trade-mark on a different breakfast food. He could have sold the whole business including the trade-mark, but he could not sell the trade-mark or license others to use it, as is done with patents. A trade-mark is part of the good-will of a business and cannot be separated from it.

"A trade-mark is analogous to the good-will of a business. Who ever heard of a good-will being sold to one, while the original owner continues the business as before? The good-will is inseparable from the business itself."³

§ 584. Summary

The common law right as has been described still exists and always has existed everywhere in this country. In the

³ *Bulte v. Iglehart Bros.*, 137 Fed. 492.

next chapter, the subject of registering trade-marks will be treated. Registry laws for trade-marks have been passed in many separate states, but the federal law permits registration of all trade-marks used in interstate commerce. As anything worth protecting by a trade-mark is used in interstate commerce, practically all trade-marks are eligible for United States registry, and our modern trade-mark law has grown up around these federal laws and the decisions of the United States courts on the cases that have come up under them. It is always to be remembered, though, that the common law right is the first, and that registration of a trade-mark confers no rights or privileges against the common law owner of a similar mark, although the latter mark has never been registered.

REVIEW QUESTIONS

1. What is the object of a trade-mark? What gives an exclusive right? Does registry of a trade-mark under state or federal laws give any better right than does use to a trade-mark? What things are gained by federal registry?
2. What are some of the elements that make a good trade-mark? How is a trade-mark adopted? What may prevent enforcement of a trade-mark?
3. What six classes of words cannot be used for trade-mark purposes? What is the reason in each class?
4. Name a dozen trade-marks that have impressed you.
5. How is the use of another's trade-mark a double wrong?
6. Why cannot a trade-mark be assigned apart from the business to which it belongs?

CHAPTER LXXXIX

REGISTRATION OF TRADE-MARKS

§ 585. The Federal Trade-Mark Law

The present act was adopted in 1905 and provides for the registration of trade-marks in the United States Patent Office. The object of the federal statutes was to systematize trade-mark procedure. It provides definitely for the protection of all trade-marks that were protected at common law and extended this protection further so as to protect some cases that the common law excluded. It leaves all common law rights as they were, for the act states: "Nothing in this act shall prevent, lessen, impeach or avoid any remedy at law or in equity which any party aggrieved by any wrongful use of any trade-mark might have had if the provisions of this chapter had not been enacted."¹

It lays down definite rules to ascertain the validity and eligibility to registration of trade-marks in use. It provides that all litigation concerning registered trade-marks may be conducted in the federal courts. It is necessary to prosecute infringers. The fact of registration gives a public record and furnishes prima facie evidence of the date when the right accrued.

A trade-mark registration is granted for twenty years and on payment of another fee it may be renewed for a like period.

§ 586. The Ten-Year Clause

The general rules as to eligibility for registration are essentially the same as the common law tests for validity that

¹ See § 23, Act of 1905.

have been given in the preceding chapter. The one important exception is "the ten-year clause" which authorizes the registration of any marks "which were in actual and exclusive use" for "ten years next preceding February 20, 1905." This clause allowed many marks, not eligible under the common law, to be registered, and thereafter to have all the rights of a common law trade-mark. Under this construction, many descriptive, geographical and proper names that were only trade-names and not trade-marks, have become statutory trade-marks. A proper name cannot, it is true, be exclusively appropriated, but the user will be protected against any use by another in a way calculated to deceive the public.

§ 587. Who May Register a Trade-Mark

Section 16 of the Rules Governing Registration of Trade-marks under the Trade-marks Act says:

A trade-mark may be registered by any person, firm, corporation, or association domiciled within the territory of the United States, or residing in or located in any foreign country which by treaty, convention, or law, affords similar privileges to the citizens of the United States, and who is the owner of such trade-mark, and uses the name in commerce with foreign nations, or among the several States, or with Indian tribes, upon payment of the fee required by law and other due proceedings had.

§ 588. Procedure for Registration

The application which an attorney makes for a trade-mark consists of:

1. A petition requesting registration.
2. A statement, specifying name, domicile, location, and citizenship of the applicant, etc.
3. A declaration or oath verifying the facts in the statements.

4. A drawing of the trade-mark.
5. Five specimens of the trade-mark, or facsimiles if, because of the mode of applying the mark to the goods specimens cannot be furnished.
6. A government fee of \$10.

§ 589. What Will Bar a Trade-Mark

No mark will be registered by the United States if the mark consists of or comprises immoral or scandalous matter; or consists of the flag or coat-of-arms or other insignia of the United States or any simulation thereof, or of any state or municipality of a foreign nation, or of any sign that has been or may be adopted by any fraternal society as its emblem, or any trade-mark which is identical with a registered trade-mark owned by another, or which so nearly resembles a registered mark owned by another as would be likely to cause confusion or mistake in the mind of the public.²

No mark that consists merely of the name of the person, firm, or corporation, will be registered unless in some particular or distinctive manner or with a picture. No descriptive or geographical name or term will be registered. No portrait of a living person may be registered unless with his written consent. The ten-year clause, already mentioned, has admitted to registry many exceptions to the foregoing rules.

If the mark is thought by the Patent Office to be registrable, the mark will be published in the *Official Gazette* at least once. This publication will be thirty days or more prior to the date of registration, and if no notice of opposition is received by the Patent Office, the certificate of registration will be issued.

§ 590. Opposition to Registration

Any person who believes he would be damaged by the registration of a mark may oppose the same by filing a written

² § 19. Rules governing registration of trade-marks. Act of February 18, 1909.

notice of opposition within thirty days after the publication of the mark to be registered. This notice must be accompanied by the proper fee of \$10.

Also, any person believing himself injured by the registration of a trade-mark in the Patent Office may at any later time make application to the Commissioner to have the registration cancelled.

The proceedings on an opposition and on applications for cancellation follow as nearly as possible the practice in interference cases in the Patent Office.

§ 591. Amendments, Rejections, and Appeals

Amendments, office letters, and interferences occur as in patent applications and after an applicant has had his trade-mark twice rejected by the examiner for the same reason, he may appeal to the Commissioner in person after payment of the fee required. Upon an adverse decision of the Commissioner an appeal may be taken to the Court of Appeals for the District of Columbia.

§ 592. Certificate of Registration

When the requirements of the law have been complied with, and the office thinks a trade-mark registrable, a certificate will be issued, signed by the Commissioner, stating that the applicant has complied with the law and stating the date and the number of his trade-mark registration. The certificate consists of a drawing of the mark and a copy of the statement and declaration.

A certificate remains in force for twenty years from its date of registration, except that if a trade-mark has been previously registered in a foreign country such certificate will cease to be in force on the day on which the mark ceases to be protected in such foreign country.

§ 593. Assignments

Subject to the rule that a trade-mark can be sold only with the business as part of the good-will, every registered mark and every mark on which application for registration has been made is assignable. Assignments must be in writing and duly acknowledged. No assignment will be recorded unless an application for the registration of the mark has first been filed in the Patent Office. These assignments must contain the number and the filing date of the application. A certificate may be issued to an assignee, but the assignment must first be recorded in the Patent Office.

§ 594. Foreign Registration

In the United States no one can register a trade-mark unless he has used it in interstate commerce, but in Japan, Mexico, and some other foreign countries anyone by paying the fees may register any trade-mark. In consequence, American exporters frequently find that some unscrupulous person has registered trade-marks that they have used for years, and that they cannot sell their goods in the country until they have bought out the pirate. If it is intended to export goods, the matter of having the trade-marks registered in the foreign market should be looked after without delay.

REVIEW QUESTIONS

1. What was the object of the Federal Trade-mark Law? Where may suit be brought against infringers?
2. What is "the ten-year clause"?
3. Who may register a trade-mark? What must be the relation of the applicant to the trade-mark? What is the requirement as to user?
4. What are the six requisites of the application?
5. Name four of the things that will bar a mark from registry?

6. Who may oppose registration? How would he know of the application? How would he proceed? After thirty days, what may anyone who is aggrieved do?
7. What rights of appeal has an applicant?
8. Who grants a certificate of registration? How long does it run?
9. How are trade-marks transferred?
10. How do some foreign registration laws relating to trade-marks differ from ours? What is the result?

CHAPTER XC

TRADE-NAMES AND UNFAIR COMPETITION

§ 595. Unfair Competition Defined

Certain trade-names cannot be claimed as trade-marks nor can they be registered under the statutes. Such would be the case with all proper, descriptive, or geographical names. If a baker named Cole had built up a profitable trade in bread in a particular town, selling his bread as "Cole's Bread," and later, a corporation was organized called the "Cole Bakery Company" and they made and sold bread in that locality, calling their product "Cole's Bread," the original builder of the business would have no redress under the doctrine of trade-marks. He cannot secure the exclusive use of a personal name, but as it seemed rankly unjust that a competitor should take advantage of such a situation, the courts invented the "doctrine of unfair competition" which is defined as follows:

"Unfair competition is the passing off, or attempting to pass off on the public the goods and business of one as being the goods and business of another."¹

This doctrine is construed broadly and covers nearly all the cases that come up where a later competitor tries to deceive the purchasing public by imitating the names, the package, or the appearance of the prior dealer's goods.

Mr. Justice Brown has expressed this doctrine as follows:

Rival manufacturers may lawfully compete for the patronage of the public in the quality and the price of their goods, in the beauty and tastefulness of their enclosing packages

¹ Sayre v. McGill Ticket Punch Co., 220 Fed. 771.

and in the extent of their advertising, and in the employment of agents, but they have no right by imitative devices to beguile the public into buying their wares under the impression that they are buying those of their rivals.²

§ 596. Trade-Names

Names used in trade to identify the owner of a business, the place where the business is located, or the kind of goods sold, which are technically not trade-marks, are protected by the courts as trade-names. Any attempt by competitors to use them or to imitate them is branded as "unfair competition."

Trade-names are secured by adoption and long use, and priority is the test of ownership. A trade-mark always has to be attached to the goods, but a trade-name used as a sign or in advertising will be protected against unfair competition. The name of a hotel will be protected or the name of a corporation. A business built up under the name of "Six Little Tailors" was protected against unfair competition under the name of "Six Big Tailors."³

§ 597. Secondary Meaning

If a word not eligible for trade-mark use, as the name of the maker, is used for a long time, as for instance in the "Pears' Soap" advertising, the word "Pears" acquires a secondary meaning; that is, it becomes an adjective describing a particular kind of soap and the court will protect it from infringers.

A word that describes the goods, as "Holeproof Hosiery" or "High Standard Varnish," or that gives the place of manufacture, as "Elgin Watches," or the name of the maker, as "Baker's Chocolate," may not be eligible to registration as a trade-mark, but because such words have acquired a secondary

² Coats v. Merrick Thread Co., 149 U. S. 562.

³ Massler v. Jacobs, 65 Ill. App. 571.

meaning in connection with the particular goods, the courts will not allow their use to injure those who have used them first. This is known as the "doctrine of secondary meaning."

"Protection is accorded against unfair dealing, whether there be a technical trade-mark or not. The essence of the wrong consists in the sale of the goods of one manufacturer or vendor for those of another."⁴

The prohibition against the use of a word of this kind that has acquired a secondary meaning is not absolute; and if the word can be used so that it does not injure the prior user, the courts will not prevent such honest use.

§ 598. Personal and Corporate Names

Personal names are not available for trade-marks, and no exclusive right can be secured, such as is the trade-mark right. If, however, a man named Rogers makes silverware and attaches his name to his goods until they and it have acquired wide reputation, he will be protected against others of the same name who try to trade on the good name of the original Rogers for silverware.

The Waterman Pen could not be protected as a trade-mark, but when one of its employees named Waterman left and started an independent business, the court decided that his company could be enjoined from using the word "Waterman" at all unless it followed the legend "Arthur A. Waterman Co." on its pens with the words "Not connected with the L. E. Waterman Co."⁵

The Walter Baker Company of Dorchester, Mass., makers of chocolate, have been in business more than a century. So many times have they had to fight infringers that their litigation is known as the "Baker cases." In these cases "Baker" had acquired the "secondary meaning" as a word descriptive

⁴ *Elgin National Watch Co. v. U. S. Watch Co.*, 170 U. S. 665 (1900).
⁵ *L. E. Waterman Co. v. Modern Pen Co.*, 197 Fed. 534; 235 U. S. 88.

of chocolate, and as it was a common name it was easy to get men named Baker to pose as chocolate manufacturers. Some of the "Baker cases" were against William Henry Baker of Winchester, Va., who started to make chocolate imitating the package and label of the original firm. He was enjoined and then he changed the color of his package to light blue, adding the legend "Best quality now with blue label." This was enjoined, and finally he was compelled to print in type as large as the label, "W. H. Baker is distinct from the old Chocolate Manufactory of Walter Baker & Company." Even so, it was advertised and sold as "Baker's Chocolate" until that proceeding was enjoined. If the original firm one hundred years ago had adopted a good common law trade-mark, it would have saved thousands of dollars and much trouble.⁶

§ 599. Geographical Names

It is natural in many cases to attach to an article the name of the place where it is made or prepared. The Waltham Watch, the Elgin Watch, Minnesota Flour, etc., are examples. Two things may then happen. First, others may make the same thing in the same locality and claim the right to attach the name of the place to their product. Second, others in other places relying on the fact that a geographical name cannot be used as a trade-mark may make similar goods and use the name of the original locality.

The courts consider either procedure as unfair competition and give the original users of the name and those who truly mark their goods a protection against those who want to sail under false colors. After the Waltham watch had attained well-earned reputation, another company started in Waltham and made watches which they sold as "Waltham Watches." The Massachusetts courts restrained them from doing this.⁷

⁶ *W. Baker & Co. v. Baker*, 77 Fed. 181 (1896); 87 Fed. 209 (1898).
⁷ *American Waltham Watch Co. v. U. S. Watch Co.* 173 Mass. 85-87 (1899).

A case of the second kind is found in the attempt of certain canners in the eastern part of the country to sell their canned fruit as "California Pears."⁸

The same case arose where certain millers branded their flour as "Minnesota Flour."⁹

§ 600. Imitation of Packages

In many cases the courts have protected original dealers by restraining the use of similar packages or labels by tricky competitors. In one case a firm bought a well-known brand of whisky in bulk and put it up in quart bottles that were square and had a bulging neck. The name "Mount Vernon Whisky" they had no claim to; anyone who bought the same whisky from the distillery in bulk could sell it under the name, but when one of their competitors put Mount Vernon Whisky in bottles that exactly duplicated theirs, the courts restrained them by injunction.¹⁰

Another illustrative case was where a baker had worked up a good local trade in bread made in oval loaves. Another baker established himself in the same place and made loaves of the identical shape. The court protected the right of the first comer against the unfair competition.¹¹

§ 601. Other Forms of Unfair Competition

The whole doctrine of unfair competition is of recent years and is still in process of evolution. On this subject the law is at its best, going on from precedent to precedent and becoming ever clearer and sharper cut and less hampered by the technical distinctions that dull the edge of so many of the older legal doctrines.

⁸ California Fruit Canners' Assn. v. Myers, 104 Fed. 82.

⁹ Pillsbury-Washburn Flour Mills Co. v. Eagle, 86 Fed. 608 (1898).

¹⁰ Cook & Bernheimer v. Ross, et al., 73 Fed. Rep. 203.

¹¹ Fox v. Best Bakery Co., 209 Mass. 251 (1911).

Refilled packages. The law will help the injured party in all cases where proof of this can be had.¹²

Deceptive Advertising. The Royal Baking Powder Company, backed by a powerful corporation, advertised largely. To take advantage of this, a Louisville man named Royal started to make and sell baking powder, printing his own name on the front of his cans in large letters. He was compelled to put his name on the back of his cans.¹³

Paine's Celery Compound was widely advertised. "Paine" being a personal name could not be a trade-mark. "Celery Compound" being descriptive was likewise not good as a trade-mark. The original makers also used a picture of a head of celery. Siegel, Cooper & Co. placed on sale in their department store in Chicago a similar preparation called "M & M Compound Extract of Celery" and advertised "Celery Compound, 85 cents." An injunction was granted against the imitator's use of the words "Celery Compound" and the use of the picture of a head of celery.

Names of Businesses. The names of hotels, of theaters, of springs, of mines, of banks, and in fact of any business enterprise will be protected by the courts against those who imitate in hopes thereby to steal a public patronage that others have earned.

In a recent story in a popular periodical, two obscure swindlers hunt up a remote namesake of a great financier, Christian Vandeleur, and then start "The Vandeleur Exploration Syndicate" with costly offices and seductive advertising and the country boy as president. There follows quite a tale of what was done, but if such a subterfuge were really employed it would be terminated by an injunction in twenty-four hours. A man has a right to the fair and honest use of his

¹² Prest-O-Lite Mfg. Co. v. Avery Lighting Co., 161 Fed. Rep. 648.

¹³ Royal Baking Powder Co. v. Royal, 122 Fed. 237.

own name, but is not allowed to use it to deceive and impose on other people.

In one case a competitor copied the architecture and outside appearance of a successful store, but the courts enjoined this competitor.¹⁴ When a patent expires, the name, so far as it indicates that peculiar construction, can be used by anyone who makes it, but the name may not be used on an entirely different mechanism, and it cannot be used on the same mechanism so as to convey the impression that it is the same machine that was constructed by the original company.

§ 602. Price Cutting

An interesting phase of the evolution of the doctrine of fair trade is the contest that is now going on against price cutting. The house of Robert Ingersoll & Co. manufacture cheap and yet useful watches, and by skilful advertising and salesmanship have created a demand and no small reputation. Department stores and other selling organizations have found it of advantage to buy up Ingersoll watches in large quantities and then offer them in special sales at cost or even less. The sale in this way injures other dealers who keep them regularly, and sell at advertised prices. Robert Ingersoll & Co. justly claim that this procedure cheapens their product, prevents regular dealers from keeping it, and leads the public to believe that the regular price is an overcharge.

The same thing is done with books and more particularly with the sundries that druggists sell. Any line of goods that has been well advertised is liable to be used in this way. The advantage to the trader is that by advertising something that is well known and much used at a price below the regular one, new customers are secured, whose purchases of other goods soon repair any losses on the cut-price goods. The disadvantage to the manufacturer of the goods that are cut,

¹⁴ *Weinstock & Co. v. Marks*, 109 Cal. 529; 30 L. R. A. 182.

is serious. Others who sell them must cut prices too or lose their trade. If they cut, they prefer not to sell them or to sell as few as possible while they push something on which they do not have to cut prices. Naturally, the manufacturers of goods that are subject to this sort of price-cutting have tried and are trying in every way to prevent it and to keep their goods from coming into the hands of those who cut prices. As the supposed object of the competitive system is to reduce price and so benefit the consumer, the courts have not shown themselves very heartily disposed to assist in the war on price-cutting.

Those who wish to uphold their prices have attempted:

1. Collectively to refuse to sell to those who sold at cut prices. The courts refused to sanction this, and held it to be in restraint of trade.
2. By direct contracts with jobbers and retailers to bind them not to cut prices. This was held illegal.
3. By refusing to sell to parties who cut prices. This has been sanctioned in one or two cases.

Meanwhile the manufacturers are trying by associate action and persistent propaganda to secure legislation favoring price maintenance. The end is not evident as yet.

REVIEW QUESTIONS

1. What is "unfair competition"? Why is it a broader right than the enforcement of a trade-mark?
2. What are trade-names? Distinguish between trade-names and trade-marks.
3. What is the doctrine of a "secondary meaning"?
4. What is the reason that the courts protect a man against others of the same name? What was the result of infringements on Rogers' Silverware? On Baker's Chocolate?

5. In what two cases will the courts protect geographical names?
6. Can shape and color of container be protected? Would an automobile-maker be allowed to take one color, say sky-blue, and prevent competitors from using it?
7. May old packages be legally filled with other commodities?
8. Could a place of amusement called the "Hippodrome" be started in New York?
9. If a man could be found named J. P. Morgan, would he be allowed to head a banking house in New York?
10. What is the object of "price-cutting" as practiced by department stores? Why do the makers of the goods object?

CHAPTER XCI

COPYRIGHTS

§ 603. Definition

A copyright is the exclusive right given by the government to reproduce, publish, and sell books, periodicals, lectures, plays, maps, musical compositions, works of art, engravings, prints, photographs, paintings, statues, designs, etc. A copyright cannot be obtained if the matter is to be used as a trade-mark or label.

A copyright grant holds good for twenty-eight years and may be renewed for fourteen years. Matter to be copyrighted must possess *literary* or *artistic* value.

A copyright grant gives the owner the exclusive right:

1. To print, publish, and sell the copyrighted work.
2. To translate it; to dramatize it; to change its form; to arrange or adapt it if a musical composition; to work it out if it be a model or a design for a work of art.
3. To deliver it in public if it be a lecture or an address.
4. To perform, represent, exhibit, or reproduce it if it is a drama, or a dramatic work, or a musical composition, or a motion picture.

§ 604. Who May Obtain Copyright

The author or owner of any work eligible for copyright, or his executors, administrators, or assigns, if citizens of the United States, may have copyright protection under the copyright law.

An alien may likewise obtain copyright:

1. If he is living in the United States at the time of the first publication of his work.
2. If the foreign state or nation of which he is a citizen grants to citizens of the United States the benefit of copyright on substantially the same basis as to its own citizens.
3. If such foreign state or nation is a party to an international agreement which provides for reciprocity in the granting of copyright, which the United States may at its pleasure become party to.

Copyrights may be obtained by the individual concerned and the aid of an attorney is not necessary. The name of the owner of the copyright given in the notice must be the true, legal name of the person, firm, or corporation owning the copyright and no other. The use of a fictitious or assumed name or the name of any person other than the real owner of the copyright may result in the loss of the copyright protection.

§ 605. Subject Matter of Copyrights

The Copyright Law, approved March 4, 1909, provides that the application for registration of any work "shall specify to which of the following classes the work in which copyright is claimed belongs." An article is not entitled to registration unless it is reasonably possible to classify it under one or the other of the following designations:

- (a) Books, including composite and cyclopaedic works, directories, gazetteers, and other compilations;
- (b) Periodicals, newspapers;
- (c) Lectures, sermons, addresses, prepared for oral delivery;

- (d) Dramatic or dramatico-musical compositions;
- (e) Musical composition;
- (f) Maps;
- (g) Works of art; models or designs for works of art;
- (h) Reproductions of a work of art;
- (i) Drawings or plastic works of a scientific or technical character;
- (j) Photographs;
- (k) Prints and pictorial illustrations."

The Amendatory Act approved August 24, 1912, added the following two new classes of works, subject matter of copyright:

- (l) Motion picture photoplays;
- (m) Motion pictures other than photoplays."

All works in the English language must be printed and set up in type for printing in the United States, the idea being that the entire operation must be done in this country. This restriction does not apply to works in a foreign language. In the case of books, the copies deposited must be accompanied by an affidavit, properly signed and sealed, stating that the type-setting, printing, and binding of the book have been performed within the United States. The application and affidavit forms may be obtained by writing to the Copyright Office. This affidavit is not required in the case of a book of foreign origin in a language or languages other than English, or in the case of a printed play in any language, as such works are not required to be manufactured in the United States.

§ 606. The First Step

The work with the copyright notice affixed must *first* be published. The notice may be in the usual form: "Copyright,

1920, by the Ronald Press Company." It is to be remembered that the book is published with the copyright notice before anything else is done. Publication with notice comes first of all. The notice is usually printed in small type on the back of the title page.

§ 607. Subsequent Procedure

If you write to the Register of Copyrights, Library of Congress, Washington, D. C., stating under which of the heads enumerated above your work comes, the office will send to you the necessary heads and information for making application.

After publication, there must be mailed to the Register of Copyrights two copies of the best edition of the work together with the application for registration and a money-order for the statutory fee of \$1 payable to the "Register of Copyrights." This requirement of the two copies is only for works reproduced for sale. For works not reproduced for sale one complete manuscript or typewritten copy is required.

There is seldom any complication, as the copyright is merely a formal registration in the office of the Librarian of Congress of the facts connected with the publication of the particular book.

The procedure consists of the filling out of the prescribed forms and the forwarding to the Register of Copyrights, Washington, D. C., of the forms, fee, and copies of the book, as follows:

1. Application for copyright
2. Affidavit of American manufacture of book
3. Statutory registration fee of \$1
4. Two copies of the book

All remittances should be made by money-order or bank draft, payable to the "Register of Copyrights."

§ 608. Making out the Application for Copyright¹

The application for copyright is made out on the blank forms furnished by the Register of Copyrights, Washington, D. C., and designated by them as forms "A 1" for new books, and "A 2" for reissued books. The information required on each varies slightly. The following is required in both:

First comes a statement of the name, address, and citizenship of the copyright claimant. Books are ordinarily copyrighted in the name of the publisher rather than in that of the author, since by making the royalty contract with the publisher the author really licenses the publisher to sell his book. It will be necessary to know, when preparing the book for the printer, in whose name the book is to be copyrighted, as the book must bear the copyright statement on the reverse side of the title page, and the application and registration are not made until after the publication.

Sometimes, however, if it is anticipated that a book will still be selling well after the period of twenty-eight years for which the copyright holds, or even after the additional fourteen years—forty-two in all—for which a copyright may be renewed, the author may prefer to take out the copyright in his own name. The reason for this is that any heirs would be less handicapped in case of litigation over claims for royalty, if the registration were in the author's name.

In filling in the author's name only the legal name and address should be used; no *nom de plume* or fictitious name should be given. In filling in the book title on the application card, the exact title should be stated. If there is a long subtitle, however, this need not be given. For instance, the full title might be as follows:

¹ The Register of Copyrights, Library of Congress, Washington, D. C., will furnish on request Bulletin No. 14, containing full text of Copyright Law with rules for practice and procedure, and Bulletin No. 15, containing rules and regulations for registration of claims to copyright.

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In such a case, only the main title would be placed on the card. Generally, the copyright does not protect the title, but the subject matter of the book.

In giving the information as to the number of volumes of which the book consists, the form should state whether it is in more than one volume, the number of volumes, and which are being deposited.

The date of publication is an important item. The date is the day on which the book was first placed on sale. It sometimes happens that a book is printed and delivered to the publisher, but is not, for some reason, placed on sale for a short time. In such cases, the day when it is actually put on the market should be given as the date of publication.

The name of the person to whom the certificate of registration is to be sent, as well as that of the person sending the fee, is nearly always that of the publisher, even though the author takes out the copyright.

In addition to the points noted above, in giving the data for reissued books, the new material on which copyright protection is asked must be specified. The numbers of the pages are usually sufficient. It is only necessary to take out new copyrights when substantial changes are made in the book, not every time it is reprinted.

Also, in the case of reissued books, the application card must contain the date of registration of the original edition, together with the registration number. These data may be obtained from the records of the publishing house. Copyright registration cards should be very carefully preserved, as they are original evidence in case of any controversies.

§ 609. The Affidavit

The Copyright Law provides that books to be copyrighted in this country must be printed either from type set in the United States, or from plates made from type set in the United States. Therefore the claimant must file an affidavit as to these points. The blank form for this is found on the reverse side of the application form. It must be sworn to before a notary by a responsible official of the publishing house. The facts which have to be recorded for both new and reissued books are as follows:

First, the relation to the book of the person swearing, i.e., whether he is the person claiming the copyright (this is usually the case with publishers), the authorized agent of the claimant in the United States, or the printer of the book.

Additional data to be given are: the title of the book (this must agree with the title given in the application), the name and address (city address, not street) of the printer, the name and address of the firm which set up the type, whether the book was printed from type or slugs, the day on which the printers finished printing, the name and address of the binder, and the date of publication (which must agree with that on the application). The data for all this information including the day on which the printing was finished and the binder's name must be obtained from the publisher if anyone else is to fill out the application.

§ 610. The Fees

The fee for registering the copyright on a book is \$1, payable in money-order or express order. Checks will not be accepted unless certified, and postage stamps will not be accepted in any case. If a work should be issued in more than one volume, the one fee will secure registration for all, provided that the books are sent in all at one time. There is also

the usual notarial fee of 25 cents for taking the acknowledgment on the affidavit.

§ 611. The Books Deposited

The Copyright Law specifies that the books filed for copyright purposes shall be "the best edition of the work." This is interpreted to mean the more expensive binding in case a book is published in more than one binding; or the complete edition, in case there is a special abridged edition. In these cases the copyright covers both books.

The requisition to the shipping department of the publishing house should note on the order "For copyright purposes," and it is then the duty of the shipping department to see that the books are turned over to the post-office for mailing without postage.

§ 612. Time for Filing Copyright

Books are published with the copyright notice already in, but the application for copyright is not made until later when the book is actually on the market. There seems to be no definite stipulation as to when the application must be made, but it should be done without delay when notice is received that the book is on sale.

§ 613. Renewals

The question of renewing copyrights for an additional term of fourteen years does not often arise. Most books are revised and added to and the newer editions carry the full twenty-eight years. Sometimes, the old editions should be renewed to keep others from publishing them, as was done by unscrupulous competitors with the original editions of Webster's Unabridged Dictionary.

§ 614. British Copyright

By the Act of 1911, an American citizen may obtain a British copyright for a published work by publication of the thing sought to be copyrighted in some British Dominion, either first, or simultaneously with the appearance of the work in America. By "simultaneously" is meant that the length of time between publication in British territory and the United States shall not exceed fourteen days.

The Act of 1911, however, does not apply to Canada, Australia, New Zealand, Newfoundland, and the Union of South Africa. Each of these five dominions has its own copyright law which must be adhered to in applying for a copyright.

Publication simultaneously with a work here will be deemed as publication first in a British Dominion, provided the publication there is not *colorable* only. That is to say, a publication that is not intended to satisfy the reasonable demand of the public, as if a firm were to send over ten copies of a piece of music for the purpose of using some of them for registration of the copyright and the remaining two or three copies to be put on the market to sell, well knowing that the demand for that music would far exceed the supply and knowing that they did not intend to make a business of that particular music in the British dominions, but merely wished to protect it from being copied.

It will readily be seen that during the period of the war it was almost impossible for any publisher to have a book copyrighted and placed on sale in England within fourteen days from the American publication date. In order to avoid this difficulty a bill has been passed in Congress and upon the signing of this by the President, the English government has promised to amend the situation there. This bill provides that residents of countries offering our authors similar protection, such as England, France, Belgium, and Italy, shall have fifteen months from the date of the proclamation of

peace in which to fulfil the formalities of perfecting a copyright on all books issued in their own country since August 1, 1914.

There are several private concerns that will secure British copyrights for books to be published here. In all such cases the copyright notice should be followed by the legend "All rights reserved," and the publication date here should be delayed to allow time for sending copies over to England.

REVIEW QUESTIONS

1. What is a copyright? How long does it last? What value must matter to be copyrighted have? What rights does it give?
2. Who may have copyright? When may an alien secure copyright?
3. The article to be copyrighted must be included in what general class? What copyright works must be printed in this country?
4. What is the first step in obtaining copyright? When may blanks be secured for making application?
5. What are the rules as to sending in copies of work? What statements are required in the application?
6. What is the fee for a copyright? Is a lawyer needed?
7. How soon after publication should the application for copyright be sent?
8. How may an American's work be protected by copyright in Great Britain?
9. What is meant by "colorable" in regard to British copyright?
10. Do all the dominions of Great Britain come under the Act of 1911 allowing copyright to Americans?

PART XVIII

TAXATION

CHAPTER XCII

LAYING TAXES

§ 615. Who Has the Right to Lay Taxes

According to the theory on which our government is founded, taxes may be laid on the people only by themselves. As it is impossible for them to do this literally, the right has been delegated to the state legislature composed of members duly elected by the people. The state legislature therefore has the supreme taxing power.

The federal government was established by concessions from the several states of various powers which it was admitted could be better exercised by the nation as a whole than by the separate states. All the powers of the federal government came originally from the states. Among these powers was the power of taxing within certain limitations.

The federal government can lay taxes only: (1) to cover its own expenses, and (2) to carry out those acts and to perform those duties for which it was formed by the Constitution; namely, "to provide for the common defense, to promote the general welfare," and to pay the debts of the United States incurred for these purposes.

Within the state itself, the legislature usually delegates the right to lay taxes for local purposes to counties, cities, incorporated villages, and divisions formed for special purposes, such as school districts and road districts.

The power of the state legislature to lay taxes is limited only by the provisions of the state constitution and the rule which governs all taxation in this country—that the tax must have been voted at a regularly called and properly constituted

session of the legislature, and that the persons taxed shall have an opportunity to be heard in their own behalf.

The federal government has only the powers heretofore enumerated. Any other body has only those powers expressly given it by the legislature and which are embodied in a duly enacted statute.

§ 616. Purposes for Which Taxes May Be Laid

State taxes may be laid to cover any of the necessary expenses of the state; such as the administration of justice, the maintenance of public education, or the construction and the maintenance of public highways and waterways; in short any public service which the citizens of the state choose to assume. The federal government is usually charged with the expense, or the major part of the expense, of maintaining and improving navigable rivers and harbors; while the state governments take charge of smaller bodies of water within their own boundaries.

Small divisions such as school and road districts may tax only for the purpose of keeping up the roads or the schools within the district. Counties and cities are allowed to tax only for their own local purposes, and then only for those which have been specified in the statute giving them the right to tax.

The purposes for which the federal government may lay taxes have been mentioned: to defray its own expenses; to provide for the common defense—that is, by maintaining an army and a navy, with fortifications and army posts where necessary; to promote the general welfare, a clause which covers all necessary expenses for the carrying out of legislation deemed to be for the welfare of the country as a whole, such as post-offices, banking and currency systems, etc.; and lastly to pay debts which have been incurred for any of these purposes.

The federal government has no right to lay a tax for the

benefit of any particular part of the country. If the tax bill should state that the tax was to be laid for a particular district it would be unconstitutional, and taxpayers may refuse to pay it. In practice many taxes *are* laid for the benefit of a particular part of the country; but if the tax is stated to be for a particular purpose throughout the country as a whole, it is valid, even though that purpose, as a matter of fact, affects only a few states, or even only one.

§ 617. Methods of Taxation

There are two methods of laying taxes.

The federal government in imposing a tax generally prescribes a rate to be laid on property, or on certain transactions. The government then collects the tax and applies it to the various purposes for which authorization has been given in the Constitution.

The state government, on the other hand, makes an appropriation to meet some particular need of the government and the tax rate is determined accordingly.

Taxes laid by the federal government are of two kinds:

1. Direct taxes may be laid on persons and property, and these must be apportioned among the states according to population.
2. Indirect taxation may be imposed, such as duties on imports and excise taxes on goods produced within the country (such as luxuries and tobacco) and these must be uniform; that is to say, all articles of the same nature must be taxed alike.

By the Sixteenth Amendment to the Constitution, Congress was given the right to lay a tax on incomes, and to disregard the former constitutional provision that a direct tax shall be proportional to the population. In pursuance of this amendment the government has raised enormous sums for the

conduct of the great war, and the federal income tax has become a permanent institution. Its application has become a branch of legal and accounting practice demanding no small measure of skill and ability.¹

In some states, all property, real and personal, is subject to equal taxation; in others, only certain forms of property are equally taxed, while certain kinds are exempt. In New York State, for example, the rate of taxation is different for different kinds of property. The legislature may classify either persons or property for the purpose of taxation, and lay taxes equally on all within a particular class. If the classification is a logical and general one, the tax is constitutional and enforceable.

There must always be some reasonable division of persons or of property for the purposes of taxation, and the tax must be laid equally on all within each group. Singling out any separate persons or pieces of property and laying on them the whole tax or a greater amount of the tax than on others which might reasonably be supposed to fall within the same class, is unconstitutional and such a tax cannot be enforced.

§ 618. Extent to Which Persons May Be Taxed

There is practically no limit to the extent to which persons or property may be taxed. For example, if a man owns a piece of property, the federal government may tax it for national purposes. The state government may also tax it for state purposes; the county for county expenses; and the school district may lay still another tax on it. All of these taxes would come out of one piece of property. Each one of the territorial divisions may tax the property several different times in one year for the different purposes for which they are allowed to lay taxes.

It is usual for states to tax corporations on their capital

¹ Montgomery's "Income Tax Procedure" is the leading authority on this subject.

stock, and also to tax stockholders on the stock in their possession. This amounts to a double tax on the same stock. The stockholder usually pays the whole tax in the end, because even if the corporation makes the payment, taxes diminish dividends and tend to depreciate the value of the stock.

A person may pay taxes on his real and his personal property to the state; an income tax on the income from them to the federal government; another tax to the state on his right to engage in an occupation; and in addition to these a poll tax which is a specific sum laid upon the individual without reference to his property, business, or employment, and depending upon residence rather than upon citizenship. The taxes enumerated are all direct taxes.

Indirect Taxes. States very frequently impose a tax on the right to transfer stock, or to inherit property. The federal government lays a duty on imports. The amount of the duty is, of course, added to the price of the goods and is paid ultimately by the consumer. Tobacco and specified luxuries pay special revenue taxes. In case of war or special need to raise funds for the expenses of the national government, it is common to impose stamp taxes; that is, to require government stamps to be placed on various legal and business documents and on specified articles of merchandise.

Taxes paid are not necessarily for advantages which the taxpayer himself receives. Persons who have no children, or who send their children to private schools, are required to pay a school tax. Taxes on real estate may be expended on improvements that mainly benefit real estate in other parts of the town.

So long as the purpose for which the tax is laid is legal and within the powers of the body laying it, there is no limit to the extent to which taxes may be imposed. As it has been expressed, the power to tax is the power to destroy. When the national banking system was instituted, a 10 per cent tax

on the circulation of the state banks made it impossible for them to issue bank notes.

REVIEW QUESTIONS

1. Who has the supreme taxing power? Whence did the federal government derive its powers to tax? What duties of the federal government require the taxing power? What bodies subordinate to the state have power to lay taxes? What limit exists on the power of a state to tax?
2. For what purposes are state taxes levied? For what purposes are federal taxes laid? Can a tax be laid for the benefit of a particular part of the country?
3. How do the state and the federal governments differ in their methods of levying taxes? How did the federal government get power to lay the present income tax? Why must taxes be laid equally?
4. To what extent may taxation be laid? How many taxes may be assessed? Distinguish "direct" and "indirect" taxes. Give examples. Are stamp taxes on cigars direct or indirect taxes? A tariff on steel rails?

CHAPTER XCIII

COLLECTING TAXES

§ 619. Assessment of Real Property

The usual method of assessing real property for taxes is to appoint appraisers to fix a valuation on the property subject to taxation. Sometimes the property is assessed on its true value and sometimes on a certain fixed percentage of its value. In New York City property is assessed on its full value. This difference in the manner of assessing real estate necessitates the appointment of a body to equalize the taxes throughout the state; or, where the taxes are for a smaller division, for that division. The State Board of Equalization performs this function for the State of New York, and the Board of Tax Commissioners for New York City. Throughout the state, county taxes are equalized by Boards of Supervisors. The valuation of real property is supposed to be made every year. As a matter of fact, the assessors cannot view and appraise the property every year, and the result is that they frequently guess at values.

In assessing real property, the value of any buildings or improvements is included. If there is any restriction on the owner's use of the property when he takes it, such as a right of way, or a limitation in regard to the character of the buildings to be erected on it, this is deducted from the value of the property. No charges against the property which the owner himself has created, however, are deducted.

It is the duty of the assessors to keep the books open for inspection, and to give notice to the taxpayers of a reasonable opportunity for inspection of the tax roll. Usually, the notice

may be published in a local paper. Merely allowing the books to be inspected during the course of one day would not satisfy the law, as it might be inconvenient or impossible for some persons to attend at that time. In some states the assessors themselves listen to complaints and objections to the assessment; in others, a board on grievances is established, before which these complaints are to be made.

After all complaints have been heard and adjusted, the assessors make out a warrant for the collector and send it to him together with the assessment roll.

§ 620. Assessment of Personal Property

The federal income tax, and in some states all taxes on personal property, are based upon the sworn reports of income or lists of property required to be submitted to the tax collector by all persons subject to the tax.

In some states of the Union, the taxpayer is given a comprehensive schedule of personal property, which he is required to fill in with number and value, and then swear to. Those who are very conscientious do this exactly and must then pay the full rate of taxation on the amount. Those who are less conscientious, neither enumerate nor value according to the facts, and are taxed on what they report. The personal tax laws generally, if correctly entitled, would be called "laws to encourage fraud and to promote perjury." As such, they come as near achieving their purpose as any laws on the books.

In other states, the report on personal property is optional, and if the victim feels that his conscience will not let him swear to less than he has, he can show the appraiser around. That official, not desiring to offend the voters who elected him, does not look too closely nor value excessively, and usually averages his neighbors in a rough way, in the same proportion, so that all are assessed below the actual amounts, but all feel

that they are being relieved of most of the amounts due, and hence appreciate the friendliness of the assessor.

There are many variations of these methods, all more or less faulty, and it is not probable that taxes are paid on more than one-third of the personal property in the country. The taxes on real property cannot be evaded; the taxes on personal property are generally evaded. Men of known wealth return ridiculously small amounts of personal property. Others have country places where by understanding with the tax authorities their assessments are limited to some specified sum, far below the real value. It is possible for a wealthy man to live at hotels and to avoid any permanent residence with the obligations of tax-paying, jury duty, etc. Hetty Green managed, during a long life, to enjoy the advantages of living in a civilized country and evading most of her portion of the cost. Most of our citizens would be willing to pay their fair share of the taxes if their neighbors did the same. When the law punishes the conscientious and rewards the man who perjures himself, the average man follows the example of his neighbor.

It is obvious that whatever amount is evaded by one man must be made up by others, and as a matter of fact, the custom of evasion is so general that the tax rate has been raised so that it is confiscatory if anyone does report truly. A rate of approximately 2 per cent is not uncommon. If a man left his family \$20,000 interest-bearing securities earning 6 per cent and paying them \$1,200 per annum, and his widow returned these securities for taxation, the state would take 2 per cent or \$400, and would leave the widow and children \$800 to live on. Most frequently such securities are not reported and the assessors do not investigate too closely. Business men have many ways of avoiding and evading taxation and salving their consciences.

It is not a pleasant subject and it is well argued that as personal taxes are generally evaded and as it is impossible to

collect with any fairness, they should be abandoned and a larger proportion of the money required by the state should be raised by land taxes, income taxes, inheritance taxes, excise taxes, and the like. The question is too large for discussion here.

§ 621. Payment of Taxes

In some localities the collector of taxes will appoint certain days on which he will be present to receive taxes, and must give taxpayers notice of the time and the place. This is usually done by publication in a local paper.

If the taxes are not paid within the time appointed, the governing authority has a right to sell the property and to take what is due out of the proceeds.

After trying several unsuccessful methods of collecting taxes from delinquents in New York, the City of New York now sells its claim for taxes, in the form of a lien on the piece of land on which the tax remains unpaid, to the person who will take it and charge the delinquent owner the lowest amount of interest. The purchaser may, if the lien is not paid, enforce his lien as a mortgage on the land. This has proved successful, and a sale of the property under foreclosure of this lien gives a good title to the person who buys the land.

§ 622. Taxation of Corporations

An individual or firm in business is taxed in the state of residence and elsewhere exactly as citizens of the state are taxed, and the constitution prevents any distinction being made between citizens of a state and citizens of another state doing the same business, but corporations usually have special taxes to pay in their home states and special taxes and reports in every other state in which they do business. The questions given at the close of the chapter indicate the difficulties with which corporations contend, especially when they operate as

foreign corporations in states other than the states in which they were incorporated.¹

§ 623. The Federal Income Tax

Any useful discussion of the federal income tax would be impossible in the brief space that could be given to it here. It is a most unfortunate piece of legislation, badly contrived in the first place, and clumsily patched and added to when the war called for the raising of unprecedented sums of money. Montgomery, in his last treatise on the subject, says:

Federal income and profits taxation is merely "one damn thing after another." The average taxpayer is bewildered by a multitude of contradictory laws, regulations and decisions. He is not permitted to ask hypothetical questions but is told to proceed at his peril. What is needed is stability and confidence. The government needs money. Is it not possible for the taxpayer to pay and the government to receive money without a continuous, annoying and expensive disturbance of the entire business and financial fabric of the country?

The difficulties of the Treasury are infinitely greater than those of any taxpayer. The responsible officials now in office deserve great credit for standing by a thankless and almost hopeless task. Congress is responsible for the present universal feeling of dissatisfaction and Congress should be informed in no uncertain tone that taxpayers and the Treasury will stand so much and no more.²

It is quite probable that its inconveniences and injustices will shortly cause its comprehensive amendment, in such shape that its complexities and obscurities will be avoided and a law that the ordinary business man can understand, will be given us instead.

¹ For further information on this, see John Scott Parker's "Corporation Manual, 1917," 19th Edition.

² "Income Tax Procedure," by Robert H. Montgomery (from the preface). This work contains 1282 pages, and a supplement on Excess Profits Tax of 351 pages. Its author is the leading authority on the subject and has followed it closely from the first laws in 1909.

REVIEW QUESTIONS

1. In your locality is real property assessed on its true value or on some percentage thereof? Are there any peculiar customs as to such assessments? How may unfair assessments be corrected?
2. In your locality how are the amount and character of the taxpayer's personal property ascertained, and how is it valued? Is it fair?
3. In your locality how are taxes collected? How is a tax title acquired? Does it give a good title?
4. Explain the taxation in your state of: (a) a foreign corporation, (b) a domestic corporation, (c) a firm: telling by whom each is taxed, the method and rate.
 - (1) Where it has factories in different towns within the state.
 - (2) Where it has factories, some in and some outside the state.
5. Suggest some remedies for overtaxation.

PART XIX
ARBITRATION

CHAPTER XCIV

ARBITRATION AND LAW¹

§ 624. Advantages of Arbitration

An action at law may be costly and most unsatisfactory; many times men who have the right clearly on their side will waive it all rather than go through the delay and the expense of litigation. Arbitration is an expedient used frequently, though not so often as it should be, to avoid litigation. The parties to a dispute may, at any time, agree to submit their differences to the decision of one or more disinterested persons. In many contracts it is now provided that any dispute or misunderstanding as to terms shall be thus settled by arbitration.

The great advantage of settling a dispute by arbitration is that there is no delay in securing a decision, and therefore the loss of time incident to a prolonged litigation is avoided. A further advantage is that it saves the heavy costs incident to most modern legal proceedings. Another advantage is that arbitrators are less likely to be hampered by the technicalities of legal procedure, and hence their decision may be nearer justice and common sense.

§ 625. Objections to Arbitration

Arbitration, like most other human institutions, is imperfect in its operations and results. The arbitrators are not infallible, and their decision, though honest and well-intentioned, may not be really right; or it may be just but contrary to the letter of the law, and in that case the party that has the law on his side will feel that in some way he has lost out. The arbi-

¹ For form of agreement to arbitrate, see Chapter CX, Form 79.

trators will have some sort of hearing before they decide, and the absence of the technical rules of a court will be found to have its disadvantages as well as its advantages, and to be in some respects unsatisfactory.

Whenever a dispute is settled, either by arbitration or by litigation, the losing party is naturally dissatisfied and in many cases, the winning party is dissatisfied also. That is a manifestation of human nature which cannot of course be avoided by any system of settling disputes.

The most serious objection to arbitration is that the arbitrators cannot enforce their decision. That is, unless the losing party voluntarily submits to the award against him, the arbitrators cannot collect damages or compel obedience. If the losing party refuses to comply it is necessary to go into a court and to get its judgment to enforce the decision of the arbitrators.

§ 626. Statutory Arbitration

In recent years methods of arbitration have been established by law in many of the states. Where that is the case, the parties may either make their own agreement for arbitration or resort to the statutory method, as they choose. In the agreement they make for arbitration they must not violate the statutes; aside from this they are free to make whatever arrangement they prefer. In no case is arbitration, rather than resort to the courts, forced upon the parties. The state laws merely prescribe a method of arbitration which they may use if they so desire, and the general principles of which they may not violate.

One advantage in arbitration under the statutes is that the award of the arbitrators is usually confirmed by the courts, as part of the procedure, and may be enforced just as any other court decision may be. It is not necessary to bring a suit; the court recognizes the arbitrators' decision.

§ 627. Agreement for Arbitration

Arbitration may be agreed to after the dispute has arisen, or it may be embodied in the original contract, to come into play if any difficulty arises.

There are two methods of arbitration:

1. Two arbitrators are appointed by the parties and these select a third arbitrator and the three decide, or, rather, two of the three decide.

2. Two arbitrators are appointed by the parties, and if they cannot agree on a decision, they choose an umpire. In such a case the umpire would have to hear the entire matter, and his decision would prevail.

The agreement to arbitrate should specify clearly just what matters are to be submitted for decision, because arbitrators can decide only on matters that are actually submitted to them. The agreement will be given to the arbitrators, and their power to decide will be limited by what is specified therein. If they go beyond their powers and decide other matters, then their decision will be enforced only so far as it relates to the points specified. The parties may, however, agree to accept the decision of the arbitrators or other points.

When the arbitrators have decided against one of the parties, they will not necessarily be limited by the agreement in adjusting the amount due; they have the power to settle on such amount as they find to be just. It should also be provided that the award of the arbitrators may be enforced by any court as a judgment.

In drawing up an agreement of arbitration the parties should go much more into detail than is usually the case. The agreement requires a careful analysis of the controversy and should provide for the following particulars:

1. For the appointment of arbitrators. (The usual method is to allow each party to choose one, and to let the two choose a third.)

2. For giving a full, clear, and orderly statement of the definite questions which are to be submitted to the arbitrators.

3. That two of the arbitrators may decide the matter. Otherwise all must agree.

4. For the payment of the expenses of the arbitration. The arbitrators may be allowed to assess this if the parties wish.

5. That the decision or the award should be in writing, and signed by the arbitrators.

6. That the award of the arbitrators may be enforced as a judgment by any court of record.

7. The signing and the acknowledgment of the agreement before a notary public, so that it may be entitled to be filed in court in the same way as a judgment.

If one of the parties is a partnership, all of the partners must sign, or there must be a written consent to the agreement by those who do not sign filed with it. If one of the parties is a corporation, there must be a resolution of the board of directors authorizing the submission to arbitration, and a certified copy of the resolution must be filed with the agreement.

Note:

1. Parties should make sure that all details are provided for in the agreement to arbitrate.

§ 628. Withdrawal from Arbitration

Parties making contracts are not allowed to stipulate that they will not go into court. Neither party can be barred from his right to litigate; such a provision would be contrary to public policy and could not be enforced. Therefore, either party may withdraw from the arbitration, and commence a suit in court at any time before the arbitrators have reached

their final decision, unless the law of the particular state forbids it.

If one of the arbitrators named dies before the final decision is reached, that ends the proceedings. New arbitrators must be appointed, if the parties still desire to arbitrate. If one of the parties dies while the arbitration is pending, the continuance of the arbitration then depends on whether the law would allow his executors or administrators to go on with a suit over the same controversy.

§ 629. Hearings

The arbitrators must give all the parties reasonable notice of hearings, but if a party has been properly notified and fails to attend a hearing, he need not be notified of the time to which it has been adjourned. Any award made without giving notice may be set aside. All the arbitrators must be present at each hearing. As a matter of course, each party is entitled to present his case. If this is not allowed, it makes the arbitration void and of no effect.

§ 630. Signing the Award

If the statute or the agreement under which the arbitration proceedings are conducted provides that the award must be in writing, the document must be written out and signed by all the arbitrators. A provision to this effect should be included in every arbitration agreement. This is for convenience of proof in case such evidence is needed.

§ 631. Enforcing the Award

It should be provided in the agreement that the award of the arbitrators may be entered as a judgment of the court; otherwise the arbitrators have no way of enforcing their decision. For instance, if the arbitrators decided that one of

the parties was to pay the other \$5,000, they could not enforce it by execution, as a court does. On this account it would be necessary for the party to whom the money had been awarded, to get the help of the court in enforcing the decision of the arbitrators. Such a suit, however, would be a very simple matter. A court would not go into the merits of the controversy; the only question before the court would be: "Was the award legally made?"

Note:

1. Arbitration is better than litigation but not as good as a friendly settlement. "Agree with thine adversary quickly, whilst thou art in the way with him." *Matthew 5:25*.

§ 632. Setting Aside the Award

After the final decision has been fairly made, it may be set aside only by the agreement of the parties. If, however, the award was not fairly reached, but was influenced by fraud or falsehood, then either party to the arbitration may appeal to a court to have it set aside.

The arbitrators are required to use their own judgment in reaching a decision. They may not submit the case to someone else for decision. If they disagree as to the amount to be paid by the losing party, they must not settle the dispute by adding together the estimates of the different arbitrators and then dividing it by the number of arbitrators.

If they do either of these things, either party may have the award set aside. The award must also be a final and complete settlement of all matters submitted to the arbitrators under the agreement. If they leave anything open for future controversy, the award may be set aside. The object of arbitration is to settle all disputes, hence it should be comprehensive and conclusive.

REVIEW QUESTIONS

1. What is the object of arbitration? Its advantages?
2. What is the reason that arbitration is so seldom used? What is the difficulty about enforcing an arbitration?
3. What is the advantage of statutory arbitration? What is meant by statutory arbitration?
4. If an agreement is made in a contract that any disputes shall be settled by arbitration, can the agreement be enforced?
5. What details should be provided in an agreement to arbitrate?
6. Why can a party withdraw from an arbitration at pleasure?
7. What can be done to enforce an award of arbitration?
8. What matters would be ground for setting an award aside?
9. In case of arbitration could either party or both employ lawyers? Would the employment of lawyers be of any advantage?

PART XX
LAW AND LAWYERS

CHAPTER XCV

STUDY OF LAW FOR BUSINESS MEN

§ 633. Law Books for Study

Some readers of this work may wish to pursue their legal study a little further, not with the idea of becoming lawyers, but in order to know a little more on the general subject of law. These would do well to read two small books, "An Introduction to the Study of Law," by Woodruff, and "Commonsense in Law," by Vinogradoff. After these it would be well to take up Walker's "American Law," or the "Elements of Law" by Clarke, or Smith's "Elementary Law." These are works prepared for the use of law students and are intended to give a broad view of the whole field. Then, for one who wishes to read a thoroughly high-class law book on the fundamental principles of our legal system it would be well to get Cooley's "Constitutional Limitations."

All of these books go into the matter more from the lawyer's standpoint than does the present work. The student should then read some manual on corporation law and then one or more of the best text-books on those particular branches of business in which he is especially interested. In choosing text-books it is prudent to examine carefully before buying. Some books are unduly technical and are difficult reading for the layman. Look up the different text-books upon the subjects in which you are interested, and see if you can read them satisfactorily, and to advantage.

Formerly all law students read Blackstone's "Commentaries." At present it is used only for reference. It is

worth reading for its literary and historical contents, but it is not recommended for any practical use nowadays.

§ 634. Law Books for a Busy Man

A small law library for consultation and reference is helpful and at times of much advantage. The science of the law is all recorded in books of law; the difficulty is to find what is wanted when it is needed. A business man's library of law books should probably have the revised statutes of his own state. It might well have the best text-books on those subjects that immediately concern his own business. For instance, in a real estate office there should be some of the better text-books relating to real estate law. In any mercantile establishment there might well be a few text-books on sales and contracts; in a factory, or where many men are employed, some works that would give some idea of modern legislation on employers' liability, workmen's compensation, and the like. In a bank there should be text-books on the laws of banking. In the library of any corporation there should be some general manual on corporation law and some compilation of the corporation law and practice of the particular state.

If it is desired to go more fully into the law, one of the great encyclopedias of the law should be purchased. From these some information can be found on any legal topic that comes up. It would be well to have also a comprehensive law dictionary which explains briefly the meaning of all the technical terms used in the profession. Law books are expensive and it is easy to tie up a good deal of money in a library.

§ 635. The Case Method of Legal Study

The generally accepted method of professional study of law is by "the case method," and lawyers in investigating any particular point that arises in practice always consult the reports, using text-books and encyclopedias merely to get a line

on the cases in point. This method is not available for the layman for the following reasons:

1. Few laymen could afford to keep up the reports, digests, and tables of citations for even the one state in which they live.

2. No layman could properly appraise the weight to be given a particular decision, which depends partly on the particular court, partly on the personality of the judge, and partly on the presentment of the case made by more or less skilled counsel.

3. No layman whose time is worth anything for business purposes can afford to go into the long and careful search necessary to find out a point that involves anything more than elementary law.

4. In many cases decisions are reached or are swayed by deficiencies of evidence or technical defects of presentment, which only a skilled lawyer could understand or allow for in estimating the weight to be given the final judgment.

It has happened many times that even the highest courts have been influenced by their sympathies in cases where the strict rules of the law would work hardship to individuals. It is a proverb in the profession that "hard cases make bad law."¹

§ 636. Taking a Law Course

If a man can give the time and study needful to take a longer or shorter course of professional law, merely for its value in business and in understanding our social and political fabric, it will prove abundantly worth while.

Brander Matthews in a review of "Law and the Family," by Judge Robert Grant says:²

¹ *Briggs v. Spaulding*, 141 U. S. 132.

² Book Review of *The New York Times*, November 30, 1919.

I spent two years in the Columbia Law School, and even if I did not make any strenuous effort to master the science of jurisprudence I did derive two indisputable benefits from my attendance upon the illuminating lessons of Professor Dwight, a past-master in the art of exposition.

The first of these benefits was the recognition of the fact that a little knowledge of the law may be a very dangerous thing, and that therefore it is always the part of wisdom to secure the advice of a competent lawyer whenever need arises for his service.

The second benefit was the acquisition of a fair familiarity with the technical terms of the law, so that I can converse with my learned counsel without his having to explain to me the nature of a *cestui que trust*, and the difference between *per stirpes* and *per capita*.

A third consequence of my law course was the conviction it would be well if an elementary knowledge of the law (such as I had gained) could be more easily attained and more generally acquired. In many of our colleges the program of studies is already overcrowded; yet I do not see why undergraduates, who do not intend to be lawyers, should not have an opportunity to master the fundamental principles of law, just as undergraduates who do not intend to be chemists or physicists are now encouraged to master the fundamental principles of chemistry and of physics.

"Ignorance of the law excuseth no man," so runs the ancient maxim; but how is any man to dispel his ignorance? Not by skimming through the misleading volume of "Every Man His Own Lawyer"—for the result of reliance on this is very likely to be a prompt justification of the cruel saying that "the man who is his own lawyer has a fool for his client." Now and again there appears a book by which any man—and, for that matter, any woman—may profit, a book in which a learned practitioner, barrister or judge talks about law for the benefit of the layman.

§ 637. Courses in Commercial Law

In many of the better business schools and in the schools of business administration, this need is recognized and courses

in commercial law of more or less thoroughness are given. It would seem that the narrow limits of so-called commercial law should be so expanded as to give the student a wider outlook on the law as a whole and on the function of the lawyer in our modern world of affairs.

Some short-sighted members of the legal profession object to the study of law by the layman from the limited trade-union view that the knowledge so obtained will diminish the fees paid the profession. As a matter of fact, a layman who knows something of the law is more likely to employ a lawyer when it is necessary and to pay less grudgingly than the layman who is ignorant of the first principles of law. It has happened many times that capable lawyers have been called to high places in business, financial, and railroad administration. It is not of record, though, that these by reason of their legal information cut down the regular legal force in the enterprises of which they took charge, or that the enterprises so directed in any case employed less capable or cheaper counsel. Rather is the legal profession advantaged both in dignity and monetary appreciation when its employment is directed by full knowledge of the capabilities and likewise the limitations of the practicing lawyer.

CHAPTER XCVI

CHOOSING A LAWYER

§ 638. The Legal Profession

It is not possible to do much business, to acquire much property, or even to live one's life without sooner or later having to do with the law and with courts of law; and this involves relations with the legal profession.

Under these circumstances, it is well that the citizen, especially if he owns property, should know with what manner of man he has to deal when he employs a lawyer or has to negotiate or contend with someone else who has employed a lawyer. The common idea of a lawyer, the scheming attorney of fiction and the stage, is merely a caricature. His prototype is occasionally met, but the average lawyer is morally and intellectually on the same plane as the average business man, with the advantage of special training continued year after year. The better lawyer is a superior type, and the law has always numbered in its ranks the best brains and best blood of our country.

It is to be remembered, however, that while the law as a profession has a peculiar appeal to, and fascination for, ambitious, intellectual young men, it also, unfortunately, appeals to a great many who are ambitious but only superficially clever; who are neither intellectual nor high-principled. The ability to prepare for and pass a legal examination is no guaranty that after admission to the bar the young man has the wisdom, judgment, and moral insight to make him a safe adviser.

Also the legal profession is overcrowded, and this leads

to an overeagerness to secure clients and tends to lower the standards of the profession. To quote from the annual address of the president of the American Bar Association:

The ease with which admission to the bar is secured in many jurisdictions and the attractions of a career which affords a living without manual labor have crowded the Bar with more lawyers than are necessary to do business. Of the 114,000 lawyers in the United States according to the census of 1910, a very considerable part are not needed for the due administration of justice. If that business were conducted like the business of any great industrial or transportation company which is striving for the highest efficiency at the least cost in order to compete successfully with its rivals, a very considerable percentage of the 114,000 would be discharged We at the bar are not producers. Superfluous lawyers are mere pensioners and drags upon the community and, upon all sound economic principles, ought to be set to some other useful work. There is plenty of work for them to do on the farms of the country.

The layman puts it more harshly:

There are vastly more lawyers than we have any use for—too many striving to make a living out of other people's troubles—and it is therefore to their advantage, when they get a case, to make as much out of it as possible, which means that instead of getting their client out of trouble, and saving his money, they greatly prolong the agony and relieve him of as much money as possible.¹

§ 639. The Domination of Precedent

It is also to be remembered that the whole education and training of the young lawyer is shaped to make him conservative and non-progressive. Any youthful ardor and enthusiasm with which he may enter is chilled by the medieval lore he must master and by the absence of any opening for initiative,

¹"My Life," by Hiram S. Maxim, page 309.

imagination, or discovery. Business and the other professions have learned better ways. Even theology has shaken her garments and the ministers of religion have found "new wine for old bottles." The followers of the law still hold that the fathers knew best, not only for their own times but also for ours, and youths who should be moral and intellectual leaders of their generation become apologists for outworn laws and effete legal practices. Precedents dominate and the "case on all fours" has greater weight than the profoundest grasp of principle or the clearest demonstration of right and justice. Dean Swift cynically wrote many years ago that the law was the only calling in which the fact that a matter had once been done wrong was considered a sufficient reason why it should always be done wrong.

Both judge and advocate feel relieved of responsibility when they find a case "on all fours" with the one before them. Hence, the eyes of the law student are turned to the past, not to the future, to the search for cases rather than to the development of principles, and as a result, while all the other sciences move forward, the practice of the law is still in the ox-cart stage.

In an effort to arouse the bar from its conservatism and inertia to a more lively sense of the splendid possibilities of its concerted action, Dean Vance of the University of Minnesota Law School said:

Bluntly put, the American lawyer has proved a failure. In no other free and civilized country are the laws so ill-administered as in these United States. We lead the world in most of the great struggles mankind is making, but in the administration of the law America lags two generations behind the rest of the civilized world. No constructive reforms of a comprehensive kind have been seriously attempted since the days of David Dudley Field, now passed a half century and more.²

² "Justice and the Poor," by Reginald Heber Smith, page 37.

§ 640. The Conservatism of the Law

After admission to the bar, the young lawyer naturally practices what he has been taught. Self-interest holds him a conservative and opposed to progress. Vested rights and established institutions become sacred in his eyes. From the older men so trained our judges are selected, and then we marvel that progressive social legislation or legal reform finds no favor in their eyes. It is probably the most serious fault of the existing system of law that it takes thousands of our brightest young men and deliberately stifles their progressive tendencies.

To quote from an article in a well-known legal periodical:

The legal profession is naturally so conservative that it is with difficulty that any innovation, no matter how meritorious, can receive anything like sufficient approval to be adopted. Every other profession in the world aside from ours has been almost remade within the last quarter of a century, while we have made practically no substantial change in our rules of procedure and practice. We constantly—courts, lawyers, bar associations, and everybody—complain of our cumbersome methods and the delay and expense incident to them, and yet we go on using them because we have grown up with them, and it is easier to continue to use the legal wheelbarrow and ox-cart than it is to change it for the expeditious legal automobile.³

§ 641. Ethical Standards of the Bar

The ethical standards of the profession are likewise distinctly medieval. The following is the ideal of the law as set forth by Elihu Root in his address to the American Bar Association, August 30, 1916:

There is another evil arising from defective education. These half-trained practitioners have had little or no opportunity to become imbued with the true spirit of the profes-

³ *Case and Comment* for July, 1917.

sion. That is not the spirit of mere controversy, of mere gain, of mere individual success. To the student of the law, there come from Hortensius and Cicero, and Malesherbes and De Seze, and Erskine and Adams, from all the glorious history of the profession of advocacy, great traditions and ethical ideals and lofty conceptions of the honor and dignity of the profession, of courage and loyalty for the maintenance of the law and the liberty it guards. It is to a Bar inspired by these traditions, imbued with this spirit, not commercialized, not playing a sordid game, not cunning and subtle and technical, or seeking unfair advantage—a Bar jealous of the honor of the profession and proud of its high calling for the maintenance of justice—that we must look for the effective administration of the law.

How far this is from the actual practice of the law anyone at all familiar with modern conditions is sadly aware. And those responsible for the lowered ethical ideals are not only the half-trained. In the same address Mr. Root says:

On the other hand, it is the business of the lawyer to conduct a case so that his client will win. His relations to the case tend to give him a one-sided view of what is just and fair in that case. The ardor and stress of conflict are not favorable to abstract considerations of justice. He is concerned in exhibiting the facts which will help his client; in stating the law on which his own side relies; in breaking down witnesses against him and strengthening witnesses in his favor. On each side the counsel plays the game for all it is worth, and sometimes superiority of counsel outweighs superiority of merit.

The best lawyers, when they govern themselves by a code higher than the legal rule of ethics, tacitly admit the low standards of the bar. It is said of Lincoln that he would never take a case when he did not believe his client to be in the right. He would not make himself the apologist for criminals who were defrauding his neighbors. There are many others in the

legal profession, more than the layman knows of, who follow Lincoln's code of ethics in regard to crooked clients. It follows that if Lincoln and those who decline to aid wrong-doers are right in their position, then the rest of the profession is wrong.

§ 642. The Criminal Lawyer

To avoid being misunderstood, it should be said that there is no intrinsic impropriety under our administration of justice in any lawyer's defending any criminal. The accused man before the court has a right to be represented by counsel, to have his witnesses heard, his case presented, and to be protected from illegal pressure. It is therefore entirely proper for a reputable lawyer to represent him.

While all this is true, there is a vast difference between what an absolutely high-principled lawyer would do in the defense of a criminal and what the usual criminal practitioner will do. At the time the late President McKinley was killed, his assassin was defended by one of the most able lawyers at the New York bar. The assassin had all his legal rights protected, he had a fair trial, he had absolute justice, he was fairly convicted, but it is not on record that any other criminal ever employed the eminent gentleman who defended him. Malefactors of wealth do not want justice. It is certain that when such a client comes before the courts he does not employ any lawyer who will do no more than make sure that he has a just trial and present every right of defense to which he is legally entitled. Hence, most reputable lawyers fight shy of all criminal cases and leave them to men of easy conscience and few scruples as to the use of any means to defeat justice.

§ 643. Selecting a Lawyer

The man who takes an active part in life will surely have need of a legal adviser. It is much cheaper to pay a lawyer to

keep one out of litigation than to fight a case in court, though this latter cannot always be avoided. Out of the 114,000 lawyers in the United States there are to be found many able, high-principled, and conscientious men who will make their clients' business their own and advise rightly, even to their own disadvantage. At the same time it is a great mistake to minimize the difficulties in the way of making a wise selection of a lawyer.

In most cases the legal adviser is selected by reason of family or social connection; and possibly this is as good a way as any other. Usually those who have known a man all his life are not deceived as to his character. There are times, however, when it becomes necessary to select a lawyer without any of these influences and then the problem is not an easy one. It is usual in such cases to ask the advice of friends. The friends usually recommend someone with whom they have had family, social, or business relations, and the result is sometimes satisfactory.

It would be much better for the business man not to wait until trouble comes to select his lawyer, but to secure one in advance who is competent, trustworthy, and conscientious, and to arrange to have him as a regular adviser. An intelligent lawyer is usually a good business man, and frequent consultations with the right kind of lawyer will prove of no small advantage.

If it is possible, a man may well go to an older lawyer who for good reasons is unable to take the business himself, and ask him to recommend some lawyer who could be retained as permanent counsel, giving him some idea of what the requirements would be. A judge has an excellent opportunity to know the lawyers who practice before him and to ascertain their qualifications and degree of ethical advancement. Every lawyer has professional friends and associates who are straightforward and whom he would trust with his own busi-

ness. A business man of experience could also recommend some lawyers whom he knew to be reliable.

Ordinarily the selection of a lawyer need not be hurried. If suit is to be brought, usually a period of years must elapse before the claim is outlawed, and, unless there is some other condition that calls for prompt action, all the time needed may be taken for the selection of an attorney. When, however, one is made defendant in a suit, he should get in touch with his lawyer without delay as there is usually much for the attorney to do in preparing the case, and, as a rule, some action is necessary within twenty days from service of notice.

It should be remembered that primarily lawyers should be employed, not to conduct litigation but to avoid litigation. Litigation, generally speaking, is like war, a destructive and unsatisfactory expedient. Two prominent New York lawyers express themselves as follows:

Jerome S. Secord says:

When matters in dispute have actually arisen and the transaction has already taken place, care should be taken to select an attorney who has the reputation of keeping his clients out of litigation rather than getting them in, as I firmly believe the attorneys can do more to prevent litigation than anyone else, and that should be their aim.

Ednor A. Marsh says:

I have spent over twenty-five years trying to keep my clients out of litigation and think I have attained some success in that regard. As a result of that experience, I believe there is only one effective method of bringing about this very desirable result. I have almost invariably found that if the other side was in the hands of a high-class lawyer we could, by honest effort, reach some ground upon which the matter could be settled.

Ex-Governor Baldwin of Connecticut says:

A large part of every lawyer's business is to advise against bringing suits, or how to act so as to avoid litigation. Here he uses what is practically almost an absolute power, for his clients come to him because they trust in his judgment, rather than their own.⁴

Lastly Abraham Lincoln said, and the American Bar Association uses it as an introduction to its Canons of Ethics:

Discourage litigation. Persuade your neighbors to compromise whenever you can. Point out to them how the nominal winner is often the real loser—in fees, expenses, and waste of time. As a peacemaker the lawyer has a superior opportunity of being a good man.

§ 644. Lawyers' Compensation

In employing an attorney, it is best to be entirely frank with him. The contract which the client is about to make is for legal service for which he expects to pay. It is not possible to have an established market price for legal services as is the case with more material commodities. Some lawyers presume on this fact and charge extortionate fees. In the same city the fees of different practitioners may be as far apart as \$100 and \$1,000 for the same services. There may be a similar difference in the value of the services secured, but this is not always the case. When engaging an attorney, either as permanent counsel or for a single matter of business, it will save trouble and misunderstanding to ask him frankly what he means to charge.

Some services, such as incorporating a company, drafting a will, and the like, can be estimated positively and a definite price can be given. In other matters, as for the conduct of a case, it is not possible to state definitely in advance what the

⁴ "The Young Man and the Law," by Simeon E. Baldwin, page 69.

cost will be. Almost every lawyer has a certain time rate, however, and grades his prices on the amount of time that it requires. Usually, time spent in consultation or in the lawyer's office will have one price, and time spent in the trial or the argument of the case will be rated at a much higher price. If a lawyer states what he charges for his time in preparing a case and what he will charge when on trial, it is possible to get some rough idea of what the proposed litigation is likely to cost.

A good plan is to arrange for a yearly consultation fee, which gives the privilege of consulting on any matters which come up. Then it should be understood that for actual legal work, negotiating, drawing contracts, or conducting litigation, regular prices are to be charged.

It is to be borne in mind that in this discussion of lawyers' compensation, the prices paid specialists or famous trial lawyers, or men who work for wealthy clients and wealthy corporations are not considered. Usually these charge all that the traffic will bear and sometimes more. Their services are luxuries which cannot be afforded by the average business man.

CHAPTER XCVII

LAW AS A VOCATION

§ 645. Necessity of the Work of a Lawyer

It is not easy to conceive of any form of the administration of justice in which the aid of those skilled in the law would not be required. The administration of the law, like every other social service, demands specialists who have prepared themselves and have been trained for this particular work. Other things being equal, a case presented by a competent counsel would have the advantage in every particular from the first to the last in the judicial consideration of the cause of action.

It is not easy to convey in few words a true impression of the enormous importance of the attorney in our system of achieving justice, but the mention of the broad outlines of his work is suggestive. He must start the case properly by satisfying all the requirements of venue, jurisdiction, service, entry, and the law of pleadings. When the case is before the court, our system contemplates the doing of justice by applying general laws to the facts of the particular case. In many cases the attorney must be ready to assist the court in determining the law applicable, and in every case he must have ascertained the facts by investigation, must have selected the material facts admissible according to the law of evidence, must have the witnesses and documents at hand, and must present the case in accordance with the rules governing trials. When judgment is rendered, he must transform that into an execution, and finally undertake to satisfy such execution by levy on the defendant's property. At every stage the attorney supplies the motive power; with-

out him the judicial machinery would never move. It is estimated that, on an average, all property passes through the hands of lawyers as often as once in every twenty-five years.

The lawyer is as necessary as the engineer or the doctor; each is a specialist who applies the laws he knows for the benefit of the civilized community. Without uprooting our entire administration of law it would be as impossible to abolish the lawyer as it would be the judge.¹

§ 646. The Work of the Family Lawyer

Apart from the function of the advocate, the lawyer's work may be heaviest in connection with the disposition and care of property. Families that have property have to have family lawyers, and this work, while not exciting, is interesting and brings the counsellor into close touch with human lives, human motives, and human experiences. The work of settling estates and the care or guardianship of minors and looking after the interests of single women, demands from the counsellor much care and much sympathy and patience for human frailties and foolishness. This sort of work will bring the lawyer into touch with many lives. Many strange stories will come to his ears, which he can never repeat but which make him feel that he can do good in the world, and that with his brethren, of the clerical and medical professions, he can help to make lighter the loads of weary human beings. As he grows older and after he has been in the community longer, he will be appointed executor of estates, guardian of minors, trustee of funds, and to other responsible work that comes to those in whom the community can trust. Much of this is not very remunerative work or very thrilling, but it has its charm for one who loves his fellow man and who cares for the lives of those about him.

¹ "Justice and the Poor," by Reginald Heber Smith.

§ 647. Business and Public Life

A special branch of a lawyer's work is where he acts as adviser for business enterprises. The lawyer should know the law and also the customs and rules that govern modern business. He will be required to organize partnerships, to incorporate companies, and to manage the legal affairs of businesses, so as to avoid conflict with the mixed-up laws of the many jurisdictions in which a modern enterprise operates. If in addition to his legal lore he has business ability and knowledge, he will become financially interested in the business of his clients and may be a director or officer of corporations, and will have to handle the multitude of industrial, financial, and commercial problems that beset a live, modern business. He will live a life close in touch with his fellows, full of interest and action, and demanding the highest qualities of intellect and conscience that he possesses.

There is another aspect in which legal training and experience in this country have appealed to a multitude of the most ambitious men in America. This is the opening afforded to political life. Most of our leading men and statesmen have been lawyers. There is a natural reason why those who study law should gravitate into making the law and administering the law of the country. For those intending to follow public life the course should be broad, including international law and economic theory, the history of our own and foreign countries, and the practical working of politics.

§ 648. The Effect of Legal Training

Apart from other considerations, a legal training has been considered an excellent preparation for a life of any kind and in our country it is frequently the preparation for successful and prominent business life. The study of law comes generally under three heads:

First, there is the history of the law, and its development, which is an interesting example of evolution and well worth studying for its cultural and informative value.

Second, the study of the principles of law. These are the best part of the course of legal study, relating to the study of ethics, to the foundations of right and wrong and basic justice. These principles in their practical application concern themselves with nearly every truth of economics and sociology. Our government, our business, our social and personal relations are all related to, and ordered and directed by, the law of the land; and to understand all of them adequately, every student should have a knowledge of the principles of Anglo-Saxon law. As a study it has always been intensely interesting to the more serious order of intellect.

The third portion of the law is less agreeable to consider. It consists of those rules of procedure which have crystallized into hard and fast statutes and decisions, sanctified by long usage, justified by precedent, and exceedingly difficult ever to change or alter to fit new circumstances and novel cases. There is no reasoning here as to principle, but only the search for and application of precedents. This part of the law becomes still less interesting as it descends to the rules of evidence and the arbitrary law of court etiquette and formal procedure. To get this part of the law into one's head requires an immense amount of drudgery with an almost intolerable burden of facts that must be kept in mind. It is not clear how this is to be avoided in the study of law as it is now constituted. The evil is recognized by many of the best practitioners and simplified procedure and more reasonable rules for presenting causes are slowly gaining place.

§ 649. The Dignity of the Profession

Apart from all the considerations that have been named, the profession of the law has always had a glamour and an

attraction for the ambitious and the intellectually gifted. In our country the lists of the great lawyers, the great judges, and the great statesmen, all of whom went through the portals of legal education, incline those who would follow their steps to seek the same paths. After the American Revolution, our peculiar form of government gave unusual opportunities to those lawyers who had initiative and constructive imaginations, as witness the unique position of John Marshall and the tremendous influence he exerted on our later history. The earlier great lawyers and judges, such as Kent, Webster, Story, and Shaw; the names of present distinguished and prominent leaders of the bar, Root, Hughes, Choate, and Taft; the many brilliant orators who having begun as advocates were later leaders in the industrial and business world, such men as Gary, Lovett, Depew, and McAdoo, all give example and impart inspiration to those who aspire to the high places and naturally follow their footsteps into the ancient and honorable profession of the law.

Not on the same plane as these, but with much influence on the young men that know them, are those leaders of the bar in every community and city whose study of the law has enabled them to rank with the best minds and most forceful characters in their vicinage. They have won well-merited distinction from their fellows who know them well, and their families occupy socially the first place in their home towns. To grow to distinction in a community, to win wealth enough for comfort, to hold an honored position and possibly distinguished office, is not a small attainment.

From all this it is not hard to see why young men have in undue numbers thought to make themselves lawyers, sought to gain the professional dignity and advantages that go with the profession in every part of the country where learning and intellect count for anything. This may have had the effect of drawing too many of our young men into the study

of the law. It has, however, resulted in giving our country some of the finest exponents of legal lore to be found in the world.

There are, it is true, parts of our country where admission to the bar is so easily obtained that the dignity of the profession has suffered. In a state where a man of ordinary ability and little education can read law in an office for six months and then be admitted to the bar, he does not deserve any honor or gain any dignity by the process. In such states there is about as much dignity in being a lawyer as usually attaches to the office of notary public. Nevertheless, even in these states where the fact of being admitted to the bar does not count for much, there have been men who by their attainments in practice and in jurisprudence have won all the dignity and honor that go with this profession in any other part of the country.

§ 650. Law as a Practical Vocation

The science of law as distinguished from its practice is all to be found in books. A person may study this science thoroughly from these books and at the end be competent only to teach law in a law school. He may have no idea of the art of the practice of law, of winning cases, and of making a living from the law in the business world. He may have no comprehension of the way in which a modern practitioner goes to work to make his place in his profession. He might know law as a science but not as a practical means of livelihood.

Success in the practice of law demands a certain intellectual ability to begin with, but this is only the beginning. The successful lawyer is a man who has this and also understands the valued art of influencing his fellow men. He must know human nature. Judges and juries are not won over by the cold-blooded application of logic and legal research. Neither are clients gained by reason of intellectual ability. They are

human and are reached through their emotions, their sympathies and prejudices, as are all other men. So the lawyer, in spite of all his intellect and legal lore, will not be successful unless he is a man of affairs, able to take his part in all the varied modern life of his fellows. A successful lawyer must be a good mixer, must be able to mingle easily with others in social, political, and business relations, and must understand human nature better than he understands his law books.

So many young men fail in the law because they start in with the idea that it is solely an intellectual profession, and that the ability to memorize and reason clearly will give them success.

§ 651. Succeeding in the Law

If a young man aspires to be a lawyer, he should first satisfy himself as to his intellectual capacity. If he graduates from high school he should be with the first in his class. If he is only fair in his studies, there are many things he can do successfully, but it would not be wise for him to study law. Assuming now that he has this necessary intellectual capacity, he may be sure that if he gives sufficient time and attention to his studies he will be admitted to the bar and have the privilege of trying to secure a paying practice. But this is only the beginning.

It has been often said that a man who has been a shirk in college may prove a leader when he passes into the law school. In fact, this seldom happens. Statistics show that the better scholars in law are those who have been among the better scholars during the period of their previous training.²

The next step to success is to secure practice. If anyone will undertake a little research work in this direction, he will

² "The Young Man and The Law," by Simeon E. Baldwin, page 140.

find that the only profitable practice comes from people who are well-to-do, or perhaps we should say from wealthy people. The average man employs a lawyer but seldom. A man who keeps his family well but spends all he makes can go through his whole life and contribute very little money to the up-keep of the legal profession. Every man has to pay employees, a doctor, and a dentist; he has to pay these a generous slice of his income, but if one investigates he will be astonished to find out how little the average man pays for lawyer's services. Find out how much the people you know well and associate with pay to a lawyer each year, or how much they have paid in their past lives; then you can get an idea of how many clients of that class you would have to have to make a fair living. If you find that you are not in a position through family, social, or other connection to secure the patronage of men of wealth, you are not likely to make much money at the practice of law. This is a hard fact that too many young men entirely overlook. The real problem is not how to be admitted to the bar, but how to secure honorably enough profitable legal work to enable one to live as a professional man should live at this time and in this country.

§ 652. Deceptive Statistics

The advertisements of some cheap law schools, which have made much money in this way, give interesting reports of the alleged net earnings of graduates of the Harvard Law School. These reports apparently show that the average legal earnings in the fifth year of practice were over \$2,500, and in the tenth year over \$5,800. These returns when applied to the ordinary young man are entirely misleading and deceptive. In the first place, of all those written to for the information from which these reports were compiled, only about one-half replied, which means that those who had failed and those who were making small returns and those who had dropped out of the law

altogether did not answer, so that the report was averaged really only from the earnings of the most successful graduates of the Harvard Law School. In the second place, no one is admitted to the Harvard Law School unless he is a graduate of a good college, which means that practically all the students come from well-to-do families, have good connections and wealthy friends and a legal and intellectual training far superior to that of the average lawyer. The report shows that taking the picked men of the school with the best preparation that money can buy, and with all possible advantages of family, associations, and connections, they have succeeded fairly well. It proves nothing more. If accurate figures could be obtained from the graduates of ordinary law schools and from that vast host who come into the law from correspondence schools and country law offices, the results would be most discouraging.

§ 653. Practical Directions

What a young man who thinks of studying law should do is to decide where he means to practice, what connections he has or can make that can give him lucrative legal work, and whether he has those social gifts that are so necessary to enable him to succeed in his profession. A young man of the author's acquaintance looking for a location went to the county seats of a number of the counties of the states in which he proposed to settle, visited the county clerks' offices, found out how many cases were on the dockets of all the courts, how many probate cases there were, how many transfers of property there had been in the past year, and then figured liberally what would be the lawyers' fees on all of this business. Then he found out how many lawyers were already in the particular county and a simple sum in division discouraged him from commencing to practice in most of the places he visited. It

should be said though, that a good lawyer with real ability to get clients could have succeeded in any of these places.

This method might not be always practicable at the present time, but no man would start a factory or a mercantile establishment or any other kind of business enterprise without taking some steps to find out what returns were likely or possible. In the law, thousands of young men every year invest a considerable capital in money and from two to fifteen of the best years of their lives only to find too late that they have mistaken their calling, and will have to go through life on the ragged edge of penury or else admit failure and try to get into some new business in later life.

Bear in mind that the real problem is, after admission to the bar, to get a profitable clientèle.⁸

⁸ Since this chapter was written, a work on the same general subject, entitled "The Young Man and The Law," by Simeon E. Baldwin, has been published. It gives the point of view of a man who by birth, education, and association had the most favorable introduction, the best training, and the most happy experience in the legal profession. If the foregoing chapter seems less enthusiastic than the book, it is because it considers more carefully the situation of the ambitious young man who must work his own way, who is not a graduate of Harvard or Yale, and who must force his upward way from the outside with no foundation of family and social connection upon which to build.

PART XXI

FORMS

CHAPTER XCVIII

DRAFTING A CONTRACT

Getting the Facts. To draw up a formal written contract, it is first necessary to get the facts of the particular transaction well in hand. These facts would include:

1. Preliminary: date, place, and parties
2. The date and the place where the contract is made
3. The consideration
4. The obligation
5. The description of the subject matter
6. The period or time limit
7. Any damages or penalty for non-performance
8. Any special provisions

Making an Outline. In order to set everything forth in due order, there is advantage in making an outline before beginning.

The outline for a formal contract may be something like this:

1. Preliminary: date, place, and parties
2. Any explanatory clauses
3. Consideration
4. Obligation and subject matter
5. Time of performance
6. Special provisions
7. Testimonium clause
8. Attestation or acknowledgment

A more detailed outline would be as follows:

1. Introductory
 - (a) Date
 - (b) Place
 - (c) Parties (first and second, third, joint, etc.; residence and any other identifying details)
2. Preamble or statement of intention
3. Considerations (frequently outlined)
4. Obligations and subject matter
 - (a) What party of first part is to do or not to do
 - (b) What party of second part is to do or not to do
 - (c) Any joint undertakings
5. Time of performance
 - (a) Beginning date
 - (b) Ending date
6. Special provisions
 - (a) General
 - (b) Special penalties for failure to do or not to do
7. Testimonium clause
8. Signatures
9. Attestation or acknowledgment

Date for a Contract. The facts in a certain proposed contract are as follows:

A contract is to be prepared as of December 1, 1919, between the Alcott Furniture Corporation of Buffalo and William F. Dean of Rochester, N. Y., by which he is to act as branch-house manager in the city of Baltimore for a period of three years from January 1, 1920, at a salary of \$6,000 per annum, payable monthly, having entire charge of their

business in that city and in the state of Maryland, and in the District of Columbia.

In addition to his salary he is to have a 1 per cent commission on all business handled through the branch in excess of \$300,000 per annum, and if the expense of doing business at the branch is less than 10 per cent of the gross sales, the manager is to receive one-third of such savings.¹ Manager is to give bond in sum of \$25,000.

These data may be roughly divided according to the outline given as follows:

1. (a) February 2d, 1920; (b) Buffalo, N. Y.; (c) Alcott Furniture Corporation of Buffalo, N. Y., and William F. Dean of Rochester, N. Y.
2. William F. Dean to be employed by the corporation to manage a branch house at Baltimore, Md.
3. Salary of \$6,000 per annum, monthly instalments of \$500 each, and contingent commission and remuneration as given under 6.
4. William F. Dean to manage branch house at Baltimore and to have entire charge of business in Maryland and District of Columbia.
5. From February 2d, 1920, to end of three years.
6. Extra commission of 1 per cent on business in excess of \$300,000; also one-third of any reduction of branch expenses below 10 per cent of gross sales.
7. Testimonium clause.
8. (a) Corporate signature; (b) the manager's signature.
9. Attestation by two witnesses. No acknowledgment.

¹The rates given are taken from a New York examination question given to applicants for C. P. A. license.

Form 1. The Contract as Drafted²**(1) Date, Place, and Parties**

THIS AGREEMENT made and entered into in the City of Buffalo, New York, on the 2nd day of February, 1920, between the Alcott Furniture Corporation, a corporation under the business corporations law of the State of New York, having its factory and principal place of business in the City of Buffalo, New York, hereinafter designated as the "Corporation," and William F. Dean of Rochester, New York, hereinafter designated as the "Manager."

WITNESSETH THAT:

(2) Preamble

WHEREAS, the said Corporation desires to employ the said William F. Dean as its branch-house Manager in the City of Baltimore, Maryland, on the terms and conditions following:

(3) Consideration

Now THEREFORE, in consideration of the salary of Six Thousand Dollars (\$6,000) per annum to be paid to the said Manager by the said Corporation in monthly instalments of Five Hundred Dollars (\$500) each, at the end of each calendar month, the said Manager agrees and binds himself as follows:

(4) Obligation or Subject Matter

1. The said Manager agrees and undertakes to conduct and manage the business of the said Corporation in the City of Baltimore for the period of three years from the date hereof, and diligently and faithfully to look after the business of said Corporation and to push the sale of its products to the best of his ability.

2. The said Manager agrees and undertakes forthwith to take charge of the business and property of the said Corporation in the City of Baltimore, and with the approval of the Corporation, to rent suitable premises at a cost not exceeding Forty-five Hundred Dollars (\$4,500) per annum, to employ salesmen and assistants as may be needed, to keep books of account according to the forms prescribed by the Corporation, and to make out all such reports and statements of the business as said corporation may demand during the period of his employment.

(5) Time of Performance

3. The period of this agreement is to be for three years from the date hereof.

(6) Special Provisions

4. It is agreed between the said parties that the said Manager shall receive as additional compensation at the end of each year a commission of One Per Cent (1%) on all net business handled through the branch in excess of Three Hundred Thousand Dollars (\$300,000) per annum.

² The numerals in parentheses and titles following them are no part of the contract, but are inserted to identify the parts of the contract with outline given above.

Further, if the entire expense of doing business at the branch shall be less than Ten Per Cent (10%) of the gross sales, then the Manager is to receive at the end of each year one-third of the amount of such saving in the expense of operation.

5. It is agreed between the said parties that the said Manager shall give bond through a reliable bonding company to the amount of Twenty-five Thousand Dollars (\$25,000), conditioned that he will honestly conduct the business of the said Corporation, and at the end of his period of employment will surrender to its duly authorized agent all property, books, and cash belonging to said Corporation.

(It is probable that there would be other terms, conditions, and provisions, which would be made part of the agreement and would follow here.)

(7) Testimonium Clause

6. IN WITNESS WHEREOF, the said Corporation by its President, thereunto duly authorized, has signed this instrument, and the Secretary has hereunto affixed the corporate seal of the said Corporation, and the said Manager has hereunto affixed his signature and seal, in the City of Buffalo, New York, on the 2nd day of February, 1920.

(8) Corporate Signature; Manager's Signature

ALCOTT FURNITURE CORPORATION

By.....
President

{ CORPORATE
SEAL }

Attest:

.....
Secretary

.....
Manager [L.S.]

(9) Attestation

Signed and sealed in our presence:

.....
.....

CHAPTER XCIX

EVIDENCING AN INSTRUMENT

Methods of Evidencing an Instrument. Any contract reduced to writing is no better than an oral contract, unless in some way it can be identified as evidence of the agreement. In order to do this it must be evidenced by the signature of one or both parties, and unless the signature is admitted, it must be proved: (1) by witnesses who knew the signature or saw it signed, (2) by acknowledgment before a notary public, or by affidavit of subscribing witness or the party who signed.

Some contracts under the Statute of Frauds need be signed by but one party, the party to be charged. The various methods of identifying instruments may be summed up as follows:

1. Signature by party to be charged.
2. Signatures by both parties.
3. Attestation of signing by witnesses.
4. Acknowledgment before a notary by party or subscribing witness.
5. Affidavit before notary by party or subscribing witness.

Signatures. When a contract of any kind has been reduced to writing it should be signed by both parties:

1. To identify the particular instrument to which the parties agreed.
2. To prove the instrument in case of suit against the party to be charged.

EVIDENCING AN INSTRUMENT

Both parties should sign: (1) to identify the agreement, and (2) in case it should be necessary to enforce it against either.

As has been set forth in Chapter VII, some contracts must be in writing and signed by the party to be charged. Signatures may be by pen or pencil, and in some cases by rubber stamp as in the case where checks are indorsed for deposit in a bank.

The usual forms for personal signatures are to be found in connection with Forms 14, 15.

When an agent signs he needs to be careful that he binds his principal and not himself. This subject has been already treated. (See § 142.)

Form 2. Agent's Signature

ALLAN GARNEY,
By JAMES KING,
Agent

Form 3. Corporate Signatures to Letters

(1) JOSEPH H. MCPHERSON,
President

(2) JOSEPH H. MCPHERSON,
President HOLLAND TYPEWRITER Co.

Form 4. Corporate Signature

(1) RAMSAY WATER COMPANY,
By.....
President

(2) RAMSAY WATER COMPANY,
By HOWARD RAMSAY,
President

The signature of a corporate official followed by his official designation is usually referred to as an "official" signature. The name of a corporation duly affixed and evidenced by the signature of the affixing officer or officers is known as a "corporate" signature.

Signature (1) of Form 3 is the simplest form of official signature. It should be used only when the letter or other instrument to which it is appended, shows plainly and unmistakably, by heading or subject matter, of what company the person signing is an official. If this is not the case, the official signature should be written in full as in signature (2) of Form 3. Corporate signature (1) of Form 4 is in the simplest form. This form shows a partial corporate signature—usually affixed by means of a rubber stamp—awaiting completion by the insertion of the president's signature as shown in signature (2) of Form 4.

When the corporate signature is affixed to important instruments, usually, though not necessarily, two or more official signatures are employed as in Form 5. The seal is also usually affixed even when not legally necessary.

The corporate signature may be legally affixed by any corporate official or agent authorized thereto by the directors or by-laws. In all current business, however, where but one signing officer is desired, the president is usually designated, unless the transaction pertains specially to the department of some other official.

When corporate acknowledgments are taken, the notary should not be an officer or stockholder of the corporation. The form of acknowledgment is usually regulated by statute and it therefore varies in almost every state of the Union.

Signatures are usually introduced by a testimonium clause. "Testimonium" means "in evidence of." The simplest forms usually state as much, as:

"Witness our signatures."

"IN WITNESS WHEREOF, we sign our names."

"IN TESTIMONY WHEREOF, we hereunto affix our signatures."

These could be followed by date and place, as:

"Witness our signatures, hereunto affixed this 24th day of February, 1920, in the City of Rochester, New York:

"Witness my hand and seal this 24th day of February, 1920.

LARRY ARNOLD [L.S.]"

In the case of corporate signatures the testimonium clause is more formal, as in Form 5 below.

Form 5. Testimonium Clause—Two Corporate Signatures

IN WITNESS WHEREOF, the said parties of the first and second parts have caused their respective corporate signatures and seals to be hereunto affixed by their duly authorized officers, in the City, County, and State of New York, on the day and year first above written.

{ CORPORATE
SEAL }

ARLINGTON BRASS WORKS,
By HENRY BRIERLY,
President

Attest Seal:
JOHN H. SAVAGE,
Secretary

{ CORPORATE
SEAL }

NEWARK CASTINGS COMPANY,
By HORACE D. POWERS,
President

Attest Seal:
HENRY M. SUNTHEIN,
Secretary

A more formal testimonium clause for a corporate and individual signature is as follows:

Form 6. Testimonium Clause—Corporate and Individual Signatures

IN WITNESS WHEREOF, the Little Falls Carpet Company, said party of the first part, has caused its corporate seal to be affixed to this indenture, and its corporate signature to be subscribed hereunto by its President and Secretary duly authorized thereunto, and the said Harrison H. Spellman, party of the second part, has affixed his signature and seal hereunto, all being done in the City of Trenton, State of New Jersey, on the day and year first above written.

{ CORPORATE
SEAL }

LITTLE FALLS CARPET COMPANY,
By WILLIS H. SHELLEY,
President
JAMES H. MCCLELLAND,
Secretary

HARRISON H. SPELLMAN [L.S.]

Seals. The use of seals is very ancient. The reason was that the property-holding classes did not know how to write their names. Earl Douglas says:

Thanks to St. Mary, son of mine
Save Gawain, ne'er can pen a line.

Hence in that day the few deeds, leases, and other instruments that came their way were evidenced by the seal of the high party contracting, and as evidence it ranked higher than the written signature.

At present, deeds, bonds, mortgages, and a few similar instruments that have come down from antiquity are required to have a seal as well as a signature to make them effectual. In former days the seal was actually impressed on hot wax and was individual to the user. Now it has become an empty form, sometimes a mere printed symbol [L.S.] on a deed form, sometimes a scroll made with a pen, and at best a red or other colored piece of paper pasted in the place where a seal should go.

A seal is still necessary on deeds and other instruments affecting land and in some states on wills. It is said "to import a consideration" and in most states the use of a seal bars any investigation as to the real consideration.

Attestation. When seals were used exclusively it was customary to have witnesses to the sealing. Now the use of witnesses adds a little to the solemnity of the execution of an instrument and in the event of either party's denying his signature, or in case of the death of a party and consequent dispute as to his signature, the ability to secure a witness who had seen the party sign and who had signed as a witness at the same time would be valuable evidence.

Under some circumstances, a subscribing witness can later go before a notary or other competent officer and prove the execution of the instrument by the party signing. In some states the signatures to all deeds must be witnessed.

Usually the only object of having witnesses attest the signatures to a contract is to have convenient evidence of the execution of the contract. This sometimes prevents a contest, and sometimes makes the parties take the whole matter more seriously. The witnesses should be persons who would be likely to stay in the vicinity for some time so that it would be possible to call upon them if they were needed later to prove the contract. The form is usually simple.

Form 7. Attestation Clause

(1) Attest:
HENRY JAMES

(2) IN WITNESS WHEREOF, we have hereunto subscribed our names at St. Louis, Missouri, on this 1st day of February, A.D., 1920.

R. L. SANDERS
CHARLES D. BATES
LEE D. NORRIS

Witnesses:
HAROLD SMITH
JAMES B. DONNELLY

- (3) Signed, sealed, and delivered in our presence this 6th day of January, 1920.
FRANK DONNELLY
LOUIS C. KING

In some states witnesses are required to deeds, and wills are always required to have the signatures of witnesses. The attestation clause in a will must be more formal.

Form 8. Attestation Clause in a Will

Signed, sealed, published, and declared by the testator as and for his last will and testament, in our presence, who, at his request, and in his presence, and in the presence of each other, have each of us hereunto subscribed our names as witnesses.

CHARLES A. PEABODY,
13 Park Avenue, New York.
C. C. TEGETHOFF,
291 East Seventeenth Street,
Flatbush, L. I.

Acknowledgments. It is required that the active party in a deed or mortgage or other instrument of equal solemnity which is to be recorded, shall, after signing the instrument, go before a notary public or other official having like powers to whom he is personally known, and shall acknowledge his signature and that he signed the instrument for the uses and purposes therein set forth. An acknowledgment does not affect the validity of the instrument, but makes it eligible for record. An unacknowledged deed is valid as between the parties. A certificate of acknowledgment merely gives evidentiary value to the instrument and qualifies it to be recorded.

An acknowledgment would seem to be a simple matter but each state has its own form and rules for taking, and an acknowledgment good for record in one is not necessarily good in another state or a foreign country. Therefore, when a deed, mortgage, or other instrument to be recorded in another state is to be acknowledged, care must be taken to comply with

the law of the particular state or country in which it is to be recorded.

The attempt has been made to secure a Uniform Foreign Acknowledgment Act, but to date, the only states that have adopted it are: Louisiana, Maryland, Nevada, New Hampshire, and Wisconsin.

Form 9. Acknowledgment of Individual Person

STATE OF } ss.:
COUNTY OF

On this day of, 19.... before me personally appeared, to me known, and known to me, to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.
(Seal if officer has seal) (Signature and title of the officer)

The Real Property Law of New York (Section 304), provides that the officer shall not take proof by a subscribing witness unless he "is personally acquainted with such witness, or has satisfactory evidence that he is the same person who was a subscribing witness to such instrument."

The certificate of acknowledgment should always contain, besides the signatures of the officer, the name of his office, extent of his jurisdiction, and date of expiration of his commission.

Form 10. Acknowledgment of Attorney

On this day of, 19...., before me personally appeared, to me known to be the person who executed the foregoing instrument in behalf of, and acknowledged that he executed the same, as the free act and deed of said

When an acknowledgment is for an instrument which is to be recorded in another county or in another state, it is

necessary to have the clerk of some court of record in the county where the notary or other official resides, certify that such officer was at the time of the acknowledgment authorized to take the same and that the signature of the officer to the acknowledgment is genuine.

Form 11. Clerk's Authentication

I, ..., clerk of the court in and for said county, which court is a court of record, having a seal, do hereby certify that, by and before whom the foregoing acknowledgment was taken, was, at the time of taking the same, a notary public (or other officer) residing in said county, and was duly authorized by the laws of said state (territory, or district) to take and certify acknowledgments or proofs of deeds of land in said state (territory or district), and further that I am well acquainted with the handwriting of said and that I verily believe that the signature to said certificate of acknowledgment is genuine.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the seal of the said court (or state) this day of, 19.....

Practical Suggestions. Since each state has its own forms of acknowledgment, it is safest, in executing deeds and other important instruments to be recorded, (1) to get a printed form of the instrument from the state in which the instrument is to be recorded, or (2) to get a book of forms giving the forms for each state and an abstract as to the law regulating the details of execution, acknowledgment, etc., or (3) to secure the services of a commissioner appointed by the governor of the state in which the instrument is to be recorded. If the matter of expense is not material, a competent lawyer could be employed to take over the whole responsibility.

Affidavits. An affidavit is a sworn statement or oath in writing made before some person authorized to administer an oath. An affidavit differs from an oath taken in court, in that it is always in writing. The affidavit must be signed by the maker as well as evidenced by the signature of the

proper officer who administered the oath. The two essential parts of an affidavit are the venue and the jurat, and if either of these is missing the affidavit will not be good.

Form 12. Affidavit

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

On this 19th day of February, 1920, personally appeared before me, a Notary Public in and for the County of New York, Walter L. Hood, Treasurer of the Hood Scale Company, who, being duly sworn, did depose and say

WALTER L. HOOD

Sworn to before me the day of

{ NOTARIAL }
SEAL

JAMES H. STEELE,
Notary Public for
New York County, No. 994

Term expires February 15, 1922.

The formal ending "Sworn to before me the day of, signed by the officer is called the "jurat."

If the person making the affidavit is blind or illiterate, the jurat of the officer taking the affidavit must state this fact and also that the affidavit was read to said person in his hearing and that he seemed to understand its contents. In the case of an affidavit by a foreigner, the jurat must state that fact and also that the affidavit was interpreted to him by someone, duly sworn, with knowledge of his language.

An affidavit is used for many purposes. In connection with pending litigation most pleadings are required to be verified by affidavit. Motions and applications for action of any kind by a court must usually be supported by affidavits. When preliminary injunctions are asked, long affidavits are usually filed with the application.

In probate, bankruptcy, and similar legal proceedings, all papers, reports, and statements are verified by affidavit of the proper party. In business life a multitude of statements, reports, and instruments of various kinds must be evidenced by affidavit. So common has the matter become that most of the sanctity that was supposed to attend an oath has vanished. The easy conscience of managing clerks in law offices as to making affidavits is a matter for jest, while tax reports usually offer a handsome premium for perjury.

In many cases where it is necessary to have the evidence of people who live in other states and in foreign countries, their attendance at court cannot be secured and the only way that their evidence can be secured is to take their depositions. Depositions are formal, written statements for use at trials, of answers under oath to questions propounded by the lawyers on each side. A deposition is a direct examination under oath followed by a cross-examination, also written, the answers being taken down in shorthand and later transcribed, and after being read over, are signed and sworn to by the witness. In some cases, instead of an oral examination and cross-examination, the answers alone being reduced to writing, the attorney who asks for the deposition prepares his questions and has them written out and submits them to the lawyer on the other side, who then prepares his cross-examination in writing, after which an officer of the court issues a commission to some officer authorized to administer oaths, who propounds the queries, records the answers, and returns the completed testimony to the clerk of the court with a large bill of costs.

A deposition differs from an affidavit in these particulars:

1. It is taken to be used in a suit, after notice and opportunity has been offered the other side to participate.

2. It can be used as evidence in the trial where an affidavit would not be admissible because the other side had not had opportunity to cross-examine the witness.

As compared with personal examination in open court, a deposition is costly, troublesome, and unsatisfactory.

Officers Authorized to Take Acknowledgments and to Administer Oaths. A notary public is the usual officer before whom acknowledgments are made and by whom affidavits are taken. In France the office is of considerable dignity and emolument. In most civilized countries the office exists. The usual requirements are citizenship and majority. His or her powers are ministerial, not judicial. In New York, notaries are appointed by and with the advice and consent of the Senate. The notary's commission gives him authority for a term of two years.

A notary has no judicial discretion and must in all cases perform the duties of his office. He may be compelled, if need be, to perform his duty. He is compensated by fees prescribed by law.

A commissioner of deeds is an officer appointed by the common council of a city to act in the city limits, and appointed by the governor if outside the city limits. He is authorized: (1) to administer oaths, (2) to take acknowledgments. His powers do not extend beyond these limits. In other states and in foreign countries a New York commissioner is empowered by the governor of New York to take acknowledgments to instruments to be recorded in New York. In the state of New York are commissioners for other states, with like authority for the states they represent.

A justice of the peace is authorized to take acknowledgments or to administer oaths in the county in which he exercises his office.

Generally a clerk or a deputy clerk of any court may take acknowledgments or administer oaths. As a rule, all judges, mayors, or recorders of cities are authorized to take acknowledgments or to administer oaths. In other states the several officers named have like authority.

Outside of the United States a conveyance may be acknowledged or proved before a consular officer of the United States, or a commissioner appointed by the governor of the particular state, or an ambassador, or a minister, duly accredited, to that country.

CHAPTER C

CONTRACT FORMS

The forms that follow cannot be comprehensive but are intended to be suggestive. When a person who has had no legal training attempts to write a contract, he will do well to avoid legal language and to express himself in plain, straightforward English such as he is accustomed to use in business. Attempts to use technical phrases usually result in obscurity and prolixity. It should be said further that where the subject matter is important or valuable, professional assistance should be secured.

Form 13. Simple Contract

AGREEMENT

This agreement is made this 22d day of January, 1920, between William Morgan and John Robertson, both of Albion, Indiana.

William Morgan undertakes to construct a line fence between his pasture and the pasture of John Robertson. The fence is to be about forty rods long, made of barbed wire, six wires high, fastened on black locust posts set firmly in the ground every eight feet.

When the fence is completed John Robertson is to pay to William Morgan one-half of the cost of the materials and labor plus ten per cent. In addition, William Morgan is to receive the material from the old fence now between the pastures.

WILLIAM MORGAN
JOHN ROBERTSON

The foregoing agreement has the elements of a contract arranged in separate paragraphs: (1) competent parties, (2) something to be done, (3) the consideration.

Form 14. Contract by Letters

TRENTON, NEW JERSEY,
January 17, 1920

TRUSTEES OF TRENTON CHORAL SOCIETY,
211 Greensward Street,
Trenton, New Jersey.

GENTLEMEN:—

Your inquiry of the 15th has been received. We can let you have the use, including light and heat, of the Main Hall in our building, 484 Main Street, for two nights, February 20 and 21, 1920, for the concerts of your Society, for seventy-five dollars a night, or one hundred and fifty dollars for the two nights. It is understood that this contract is with you three gentlemen personally and that you individually agree to pay the specified rent.

Yours very truly,
HAYES & MARCUS

TRENTON, NEW JERSEY,
January 19, 1920

MESSRS. HAYES & MARCUS,
484 Main Street,
Trenton, New Jersey.

GENTLEMEN:—

Your proposition, contained in your letter of the 17th is accepted and we shall arrange for the concerts February 20 and 21 as specified.

We bind ourselves individually to pay the price named, one hundred and fifty dollars, for the two nights.

Respectfully yours,
H. J. THOMAS
JOHN E. BAKER
ALFRED DICKSON

Form 15. Unilateral Contract

AGREEMENT

In consideration of the sum of Seventy-Five Dollars (\$75) to me in hand paid by Henry Adams, the receipt whereof is hereby acknowledged, I agree and bind myself to remove all signs projecting more than six inches from the front of the building, No. 241 Summit Street, Akron, Ohio, occupied by me as a hardware store, and I will not place nor allow to be placed any sign or other projection extending more than six inches from the front of the said building during the term of my lease which expires three years from January 1, 1920.

ARTHUR ALLEN

Akron, Ohio,
February 11, 1920

The foregoing contract is a unilateral contract and is signed by but one of the parties, the other party having executed his part of it—the payment of the consideration. It fulfils the requirements of the Statute of Frauds, being a memorandum signed by the party to be charged with responsibility in the matter.

Form 16. Formal Contract

AGREEMENT

This agreement entered into this 26th day of January, 1920, between Charles Davenport of Lexington, Kentucky, and George Atkins of the same place, sets forth that the said parties have entered into the following contract:

1. Charles Davenport agrees and binds himself to take the superintendency of the stock farm of the said George Atkins known as Highland Park and situated ten miles northeast of Lexington, and to give his entire time to his duties as such superintendent.

2. His duties will require that he reside on the said premises and he is to have the use of the house on the Midland Road in the northwest part of said property for himself and family, together with the garden ground immediately surrounding it and the use of the outbuildings thereto attached.

(Other numbered sections will set forth his duties and obligations as fully as may be desired.)

11. In consideration of the foregoing undertakings of the said Charles Davenport, the said George Atkins agrees and binds himself to pay to the said Charles Davenport the sum of Twenty-Four Hundred Dollars (\$2400) per annum, to be paid in monthly instalments of Two Hundred Dollars (\$200) on the last day of each month, and in addition thereto a commission of ten per cent on the price of all live stock sold from the premises during the period of this agreement and for one year thereafter.

12. This agreement shall begin March 1, 1920, and shall continue for three years from that date and thereafter from year to year until either party terminates the agreement by giving the other party notice of his desire to terminate the agreement, six months before the next March.

In witness of this agreement the said parties have hereunto affixed their signatures this 26th day of January, 1920.

CHARLES DAVENPORT
GEORGE ATKINS

Form 17. Corporate Contract

CONTRACT

An agreement made and entered into this 6th day of February, A.D. 1920, by and between the Warren Lithographing Company, a corporation under the laws of the State of Maine, doing business in Worcester, Mass., party of the first part, and the Houston Lithographing Company, a corporation under the laws of the State of New York, having its principal office at No. 20 Broad Street, New York City, party of the second part.

For and in consideration of the sum of One Dollar and of other valuable considerations passing between the parties hereto, the receipt whereof is hereby respectively acknowledged, it is agreed as follows:

1. That the said party of the first part shall employ one John Putnam of Hartford, Connecticut, for account of both the parties hereunto, to work upon and perfect as far as may be, a certain improvement in lithography known as the "Copper Plate Process," said process being now the joint property of the said parties to this present agreement.

2. That said party of the first part shall pay the said John Putnam a monthly salary not exceeding Three Hundred Dollars (\$300) and shall also furnish such materials, supplies, and assistance as the said John Putnam may reasonably require in the process of his work.

3. That at the end of each quarter said party of the first part shall render a statement of the expenses incurred by reason of the employment of the said John Putnam for the perfection of the said Copper Plate Process, and said party of the second part shall within ten days of the receipt of said statement remit one-half thereof to the said party of the first part.

4. That all improvements in said Copper Plate Process or in connection therewith that may be made or discovered by the said John Putnam, shall be the joint and equal property of the two parties to this present agreement, and patents therefor shall be taken out in the names of the said parties of this present agreement and at their joint expense.

5. That said employment of said John Putnam shall continue for one year from date, unless sooner terminated by mutual agreement or by circumstances beyond the control of the parties hereto.

(Testimonium and signatures as in Form 5.)

Form 18. Assignment of Contract

ASSIGNMENT

KNOW ALL MEN BY THESE PRESENTS:

That for and in consideration of the payment by the Connecticut Valley Paper Mills, a corporation organized under the laws of the State of Connecticut, and having its principal office and place of business at 525 Main Street, New Haven, Connecticut, of Twenty-five Thousand, Seven Hundred and Forty-five Dollars (\$25,745) to James Holden, having his office and place of business at 152 Warren Street, New York City, the

receipt of which payment is by the said Holden hereby acknowledged, said James Holden does hereby assign, transfer, and convey to the said Connecticut Valley Paper Mills, all and singular, his right, title, and interest of every kind in and to a certain contract (copy of which is hereunto annexed and made part of this present instrument) entered into on the 28th day of February, 1920, between Martin S. Coleman of Brooklyn, New York, and said James Holden, said contract vesting in said Holden, his representatives and assigns, under the conditions in said contract, the exclusive right to acquire and use all the inventions and processes that may hereafter be made, discovered, or devised by the said Coleman for the manufacture of paper or to be used in connection therewith, said contract being conveyed to and accepted by the said Connecticut Valley Paper Mills with all its rights, privileges, and obligations as herein set forth and as hereunto held by the said James Holden.

IN WITNESS WHEREOF, the said James Holden has hereunto affixed his signature and seal, in the City, County, and State of New York, on this 28th day of March, 1920.

JAMES HOLDEN [L.S.]

Attest:

MARY WILFORD

Acknowledgment is not essential to this assignment but is advisable.

The assignment of contract which follows is informal but sufficient where the whole transaction is well understood. In practice it is usually indorsed on the back of the contract to be assigned, or, with the word "within" changed to "above and foregoing," is placed on the last page of the contract.

Form 19. Assignment of Contract—Indorsement Form

For and in consideration of One Dollar and of other sufficient considerations, the receipt of all of which is hereby acknowledged, the Sterling Power Company does hereby sell, assign, and transfer to Howard Graham the within contract with all the rights, privileges, obligations, and undertakings thereof as therein set forth.

IN WITNESS WHEREOF, the signature and the attested seal of the said Sterling Power Company are hereunto affixed by its duly authorized officers this 31st day of January, 1920.

{ CORPORATE
SEAL }

STERLING POWER COMPANY,
By MILLER STERLING,
President

Attest Seal:

HENRY WELLING,
Secretary

CHAPTER CI

FORMS OF SALES CONTRACTS

Form 20. Memorandum of Sale

MEMORANDUM

THE KELLEY COMMISSION COMPANY,
159 La Salle Street, Chicago, Illinois

February 21, 1920

We have this day sold to John D. Heiden, Urbana, Illinois, payable sixty days after delivery, five per cent discount for cash, the following goods:

50 barrels of flour @ \$12.50 per barrel,
delivery to be made within ten days, f.o.b.
Chicago.

THE KELLEY COMMISSION COMPANY,
By HENRY TOMPKINS,
Treasurer
JOHN D. HEIDEN

The above memorandum is sufficient under the Statute of Frauds to make a binding contract, and it will be noted it is signed by both parties. If only one party signed, he alone could be held.

A letter making an offer, which is accepted by another letter, is the simplest form of written contract. Form 21 is an example of contract by letters, showing the offer and acceptance.

FORMS OF SALES CONTRACTS

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Form 21. Contract of Sale By Letters

OFFER

MOUNT HOLLEY IRON COMPANY,
Ashfield, N. J.

January 10, 1920

MR. RICHARD A. PERRY,
365 Amity Street,
Newark, N. J.

DEAR SIR:—

Our company has on hand some thirty or forty tons of nut and bolt scraps which we shall be pleased to sell at \$1.30 per hundredweight, terms 30 days, and deliver in Newark within five days after order. We will sell in lots of not less than ten tons.

Kindly advise at earliest convenience if you desire any or all of this material.

Yours very truly,
MOUNT HOLLEY IRON COMPANY,
By J. SHELDON,
Secretary

ACCEPTANCE

NEWARK, January 12, 1920.

MOUNT HOLLEY IRON COMPANY,
Ashfield, N. J.

GENTLEMEN:—

In reply to your letter of January 10, I shall be pleased to take fifteen tons of the nut and bolt scraps you describe, at price and on terms named, provided same is delivered on or before the 19th of this month.

Yours very truly,
RICHARD A. PERRY

Form 22. Conditional Sales Contract

LEASE AGREEMENT

This agreement certifies that Harry D. McKay, the undersigned, now living at 136 Park Place, New Rochelle, New York, has received from the W. H. Cary Manufacturing Company, a corporation under the laws of New York, one second-hand Dodge automobile, returnable on demand, in

good order and repair, and valued at Five Hundred and Forty Dollars (\$540). This the undersigned agrees to use with care and keep in good order and condition, and he agrees to pay for the use of it as follows:

On delivery of said property, One Hundred Dollars (\$100), which shall be accepted as payment for rent until March 1, 1920, and then he shall pay at the rate of Twenty-Five Dollars (\$25) per month in advance on the first day of each and every month, without notice or demand, at the office of the said W. H. Cary Manufacturing Company, No. 485 Adams Street, Brooklyn, New York. If default be made in any of the payments so provided, or in case the undersigned shall sell, offer to sell, remove, or attempt to remove said property from under his custody or control, without the consent in writing of the said W. H. Cary Manufacturing Company, then this lease shall cease and terminate, and the said W. H. Cary Manufacturing Company, or its agent, is authorized to take actual possession of said property wherever the same may be.

It is further agreed that the undersigned may at any time within said rental period purchase the said automobile by paying the named valuation therefor, and in that case the rent theretofore paid shall be deducted from the purchase price. If any instalment of rent is not paid when due, or if said property is not returned upon demand, the undersigned agrees to pay an attorney's fee of Twenty-Five Dollars (\$25) in case his lease is placed in the hands of an attorney for collection of said rent, or to recover possession of the said automobile.

HARRY D. MCKAY

New Rochelle, New York,
January 10, 1920

Attest:
HENRY SMITH

The above is a form of a conditional contract used in the sale of goods on instalments. Signed by the vendee, it is good in New York and can be filed without acknowledgment or affidavit.

If it were desired to make such a contract in any other state, it would be necessary to see what the state laws are in regard to conditional sales, and it would not be safe to proceed without such an investigation or the employment of a lawyer.

In any state one can apply to an instalment house or to an agent for automobiles, cash registers, pianos, safes, or other similar articles, and get a blank form that will meet local requirements.

Form 23. Bill of Sale—Personal

BILL OF SALE

Be it known that Thomas Gray of Beaver Falls, Pennsylvania, in consideration of the sum of One Hundred and Seventy-Five Dollars (\$175) paid by Allen Ruskin of Pittsburgh, Pennsylvania, the receipt whereof is hereby acknowledged, does hereby sell, transfer, and deliver unto the said Allen Ruskin the following goods and chattels, namely:

(Itemized list of goods and chattels.)

To have and to hold, all and singular, the said goods and chattels to the said Allen Ruskin, his representatives, and assigns to their use and behoof forever, and I hereby covenant that I am the lawful owner of the said goods and chattels, that they are unencumbered, that I have good right to sell the same, and that I will warrant and defend the title of the same against the claims and demands of all persons.

IN WITNESS WHEREOF, I have hereunto set my hand and seal in Beaver Falls, Pennsylvania, this 30th day of January, 1920.

THOMAS GRAY [L.S.]

Form 24. Bill of Sale—Personal

BILL OF SALE

In consideration of the sum of Eight Hundred Dollars (\$800) cash, to me in hand paid by Emily Gates of New York City, New York (vendee herein), the receipt whereof is hereby acknowledged, I, Margaret Banning of New York City, New York (vendor herein), do hereby sell, assign, transfer, and convey to the said Emily Gates:

All and singular the household goods and furniture, bedding, carpets, rugs, pictures, books, china, glassware, and sundries contained in my residence, No. 232 West 86th Street, New York City, New York, the same being more particularly set out in the inventory hereunto attached and made part hereof:

To have and to hold the said goods and chattels to the sole use and behoof of the said Emily Gates, her heirs, assigns, and personal representatives, forever.

And I do hereby covenant with the said Emily Gates that I am the lawful owner of the said goods and chattels; that they are free from all liens; that I have good right to sell the same as aforesaid; and that I will warrant and defend the same against the lawful claims and demands of all persons.

IN WITNESS WHEREOF, I have hereunto affixed my hand and seal, this 24th day of February, 1920.

MARGARET BANNING [L.S.]

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

On this 24th day of February, 1920, before me personally appeared Margaret Banning, to me known, and known to me, to be the person described in and who executed the foregoing bill of sale, and acknowledged to me that she executed the same for the uses and purposes therein set forth.

OSCAR WYATT,
Notary Public No. 380,
New York County, N. Y.

The acknowledgment to the foregoing bill of sale is not essential but is often added.

Form 25. Contract of Warranty

THE BENEDICT WAGON COMPANY,
Columbus, Ohio

January 15, 1920

MR. JOHN E. COURTNEY,
Mount Adams, Ohio.

DEAR SIR:—

We have received your letter making inquiry as to our platform spring wagons shown on the catalogue heretofore sent you.

Our No. 530 Standard is well made and has the best quality of wood and steel in every part. We will warrant it for one year to carry loads not in excess of four tons, anywhere on a country road, if drawn by two horses. We will warrant the springs and running gear against any flaw in material or workmanship for five years after purchase. The price is \$250, and, if you desire, it can be paid half down and the balance by your note at one year.

May we ship you the wagon?

Very truly yours,
THE BENEDICT WAGON COMPANY

MOUNT ADAMS, OHIO,
January 17, 1920

THE BENEDICT WAGON COMPANY,
Columbus, Ohio.

GENTLEMEN:—

Your letter of January 15 has been received. I shall be pleased to take the wagon on the terms and under warranty specified.

Very truly yours,
JOHN E. COURTNEY

CHAPTER CII

AGENCY FORMS

Form 26. Appointment of Special Agent

APPOINTMENT OF AGENT

I, the undersigned, do hereby constitute and appoint Arthur C. McCall of Cincinnati, Ohio, my agent and representative, for me and in my place and stead to receive and receipt for any and all payments that may be payable to me from the estate of Howard Lansing, deceased, late of Hamilton County, State of Ohio, and authorize him to do all other things that may be necessary to carry into effect the intent of this appointment, and I hereby ratify and confirm all that my said agent may do in pursuance of the authority herein conferred.

IN WITNESS WHEREOF, I have hereunto affixed my signature and seal, in Brooklyn, New York, this 8th day of January, 1920.
JOHN H. MARTIN [L.S.]

Form 27. Appointment of General Agent

APPOINTMENT OF AGENT

KNOW ALL MEN BY THESE PRESENTS:

That I, the undersigned, having enlisted in the service of the United States, and having to be absent during the term of such service, do hereby make, constitute, and appoint William F. Watkins of Newark, New Jersey, my general agent and attorney-in-fact, giving and granting unto him full power and authority to do and perform all things requisite and necessary to the management and care of my property and business, and in particular to the conduct of the coal and fuel business under the name of the Keystone Fuel Company, of which I am sole owner and proprietor, having its office at No. 421 Market Street, Newark, New Jersey, and its yards and storage rooms on the line of the Erie Railroad in the northern part of the said city of Newark. And I hereby give the said agent power to do and perform all things necessary to be done in the conduct of said business as fully and to all intents and purposes as I could myself do if personally present; and I do hereby authorize and empower him to sign as agent all letters, orders, bills, and receipts necessary in the conduct of said business, and to indorse for collection and deposit all checks and bills of exchange in the name of the said company, and to draw checks on such deposits as

agent, and I empower him to order coal and other fuel needed for the conduct of the said business up to but not exceeding Five Thousand Dollars (\$5,000) at any one time, it being understood and agreed that any orders in excess of that amount shall be sent to my lawyer, Henry Herbert, 124 Broad St., Newark, for his countersignature.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this twenty-eighth day of January in the year one thousand, nine hundred and eighteen.

PAUL PENFIELD [L.S.]

Witness:

HARRY ALFORD

In connection with an agency such as this, there should be a carefully drawn contract, signed by both parties, setting forth in more detail the duties, obligations, and compensation of the agent. The appointment as agent is to be shown to those dealt with as evidence of the extent of his authority.

Form 28. Power of Attorney

POWER OF ATTORNEY

Know all men by these presents that I, Horace M. Maxwell of Cincinnati, Ohio, have made, constituted, and appointed, and by these presents do make, constitute, and appoint Julian Blanchard of New York City my true and lawful attorney for me and in my name, place, and stead to (*set out fully what is to be done by the attorney*); giving and granting unto my said attorney full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully to all intents and purposes, as I might or could do if personally present, with full power of substitution and revocation, hereby ratifying and confirming all that my said attorney or his substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this eleventh day of March in the year one thousand, nine hundred and twenty.

HORACE M. MAXWELL [L.S.]

Executed and delivered
in the presence of:
MARION COLGATE

The foregoing is a simple form of power of attorney and can be used to empower another person to act and to do any business as an agent or representative of the principal who executes the power. If it were required that the attorney

should execute a deed, or mortgage, or any other transaction involving land, or execute any instrument that would have to be filed in a court or office of registry, it would be necessary that the principal should execute an acknowledgment before a notary public or other officer having a seal. The word "attorney" as used here does not mean an "attorney-at-law," but an "attorney-in-fact," or agent to transact business.

Form 29. Power of Attorney—Corporate

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the Tucson Cattle Company, a corporation duly organized under the laws of Arizona, does hereby make, constitute, and appoint Howard H. McComb of the State of New York, its true and lawful attorney, for it and in its name, place, and stead, to collect and receive from the New York Drivers' Association of New York City the sum of Three Thousand Dollars (\$3,000) with interest thereon at the legal rate from the 1st day of March, 1919, said amount being due and payable to the Tucson Cattle Company for and on account of cattle shipped the said New York Drivers' Association during the month of February, 1919, and the said Howard H. McComb is hereby fully authorized and empowered for and on account of the said Tucson Cattle Company and in its name, to collect, receive, and receipt for the said Three Thousand Dollars (\$3,000), and the interest thereon as aforesaid, in whole or in part, but without prejudice to any portion thereof unpaid, and to incur and pay on behalf of the said Tucson Cattle Company all reasonable expenses incident to the collection of said amount, including all proper cost of any suit or other legal proceedings necessary thereto, and generally to do all such other things in connection therewith as may be necessary and proper in the premises.

IN WITNESS WHEREOF, the said Tucson Cattle Company has caused its corporate name to be signed hereunto by its President and its corporate seal to be affixed and attested by its Secretary, all being done in the City of Tucson, Arizona, on this the 26th day of January, 1920.

{ CORPORATE
SEAL }

TUCSON CATTLE COMPANY,
By GEORGE M. PRICE,
President

Attest Seal:

WILSON M. BURNES,
Secretary

The foregoing power of attorney would usually be ac-

knowledge in order to give it greater weight and more ready recognition.

When a corporate power of attorney is given for some special act, it expires automatically as soon as that act is performed. When, however, it is desired to terminate the powers prior thereto, or where the power is a continuing one, a formal revocation is necessary. Notice of this revocation should be sent to the parties directly interested, and, in case of a general power of attorney, should also be published.

Form 30. Revocation of Power of Attorney

REVOCATION OF POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

That the Berwell Investment Company, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and having its office and principal place of business at No. 30 Broad Street, in the City of New York, has for good cause and consideration revoked, recalled, annulled, and made void, and by these presents does revoke, recall, annul, and make void, a certain power of attorney given under date of August 18th, 1919, under its corporate signature and seal, to George B. Baldwin of Houston, Texas, and does hereby withdraw, deny, and cancel any and all powers and authorities whatsoever therein expressed and conveyed.

IN WITNESS WHEREOF, the said Berwell Investment Company has caused its corporate signature and seal to be hereunto affixed by its President and Secretary in the City of New York on this 19th day of January, 1920.

{ CORPORATE
SEAL }

BERWELL INVESTMENT COMPANY,
By JAMES WARREN,
President
WILLIS BAKER,
Secretary

Form 31. Proxy—Simple Form

PROXY

I hereby appoint George H. Brewer my proxy, with full authority to vote for me and in my place at any and all stockholders' meetings of the Brewer Plow Company.

Witness my hand and seal this 8th day of March, 1920.

Witnessed by
HENRY F. SIMMONS

HAROLD J. MCCORMICK [L.S.]

This proxy is under most circumstances legally sufficient and the powers it conveys are broad. A more formal proxy is, however, desirable when important matters are to be considered. The proxy which follows is still simple as to form but more specific in its terms.

Form 32. Proxy—Unlimited

PROXY

I, the undersigned, do hereby constitute and appoint George J. McClelland my true and lawful attorney to represent me at any and all meetings of the stockholders of the Carney Falls Power Company, and for me and in my name and stead to vote thereat upon the stock standing in my name on the books of said Company at the times of said meetings, and I hereby grant my said attorney all the powers that I should myself possess if personally present thereat.

Witness my signature and seal this 1st day of April, 1920.

HAROLD B. MCCLELLAND [L.S.]

In the presence of
ALPHONSE H. DURET

Proxies for the first meeting of stockholders differ but little from proxies for other meetings, though they are usually limited to the particular meeting and its adjournments.

When proxies are to be used, they are filed with the secretary of the meeting. If the holder desires to retain his original proxy, he may, after exhibiting the original, file a certified copy with the secretary of the meeting.

Form 33. Revocation of Proxy

REVOCATION OF PROXY

KNOW ALL MEN BY THESE PRESENTS:

That I, the undersigned, do hereby revoke and annul any and all proxies or powers of attorney heretofore given by me, authorizing or empowering any person or persons to represent me, or vote in my name

and stead or act for me in any way whatsoever at any meeting or meetings of the stockholders of the Carney Falls Power Company.

Witness my signature and seal this 10th day of May, 1920.

DANIEL H. RONALDS [L.S.]

In the presence of
JOHN H. DUNN

The foregoing revocation of outstanding proxies is sweeping in its terms. If some particular proxy is to be excepted from the general revocation, such proxy may be specifically reserved, or otherwise the revocation may itself be limited by its terms to the one or more proxies to be revoked, and any other proxies then outstanding are not affected.

CHAPTER CIII

FORMS OF NEGOTIABLE INSTRUMENTS

Form 34. Check by Individual

MONTCLAIR, N. J., February 2, 1920	No. 1213
THE FIRST NATIONAL BANK of Montclair, N. J.	
Pay to the order of Union Congregational Church.....\$25 00/100	
Twenty-five and 00/100.....Dollars	
FRANK GRAY MELVILLE	

Form 35. Corporate Check

STANDARD COAL COMPANY	No. 1754	NEW YORK, May 1, 1920
	SEABOARD NATIONAL BANK of the City of New York	
	Pay to the order of John H. Wilkins.....\$425 75/100	
	Four Hundred Twenty-Five and 75/100.....Dollars	
	SAMUEL S. STEIGEL, President	
	STEWART H. WILSON, Treasurer	

The corporate seal is seldom if ever used on corporate checks, though its use does not affect the check in any way. When the corporate funds are material in amount, the names of two officials are usually required upon the check. Where

the name of the company is placed elsewhere on the check, it may be omitted from the signature but must appear in the indorsement.

If the by-laws or a directors' resolution require that the corporate name be affixed by the treasurer and the check be countersigned by the president, as is frequently the case, the signatures would appear as follows:

Countersigned:
JAMES J. McLANE,
President

MERRIVALE MANUFACTURING CO.,
By HORACE P. WISNER,
Treasurer

Form 36. Corporate Indorsement of Check

(1) VOGEL SHOE COMPANY,
RALPH A. SMITH,
Treasurer

(2) Pay to the Order of the
CHASE NATIONAL BANK,
HOWELL HARDWARE COMPANY,
JOHN BLAKE, Treasurer

The ordinary indorsement of a check payable to a corporation is given in example (1) above. This indorsement is usually affixed by the treasurer or cashier, though the president is frequently authorized thereto.

The form of indorsement in example (2) above is usually affixed in its entirety—corporate name, official signature, etc.—with a rubber stamp. Such an indorsement is approved by the banks and, on account of the rapidity and convenience with which it may be affixed, is the one employed by most corporations.

Form 37. (a) Voucher Check (face)

No. 5960 H. G. WARING COMPANY
DAYTON, OHIO, March 19, 1920
Pay to the order of W. G. Holden & Co. \$220 00/100
Two Hundred Twenty and 00/100 Dollars
In full payment of account as shown on the reverse side of this
Voucher.
To WINTERS NATIONAL BANK, H. G. WARING COMPANY,
Cincinnati, Ohio. By PERCY MACEY,
Treasurer
(Folded lengthwise here)

INDORSEMENT HERE

Form 37. (b) Voucher Check—Statement (reverse)

VOUCHER CHECK				
H. G. WARING COMPANY, Dayton, Ohio.				No. 1689
Favor of W. G. HOLDEN & Co. Address, Hamilton, Ohio.				
Feb. 6	I Fire-proof Safe, No. 2B.	220	00	
Audited and Approved, E. E. A.				
If not correct return without alteration or changes.				

There are many forms of voucher checks, which differ according to the accounting system in use. The matter is one that may profitably be investigated by all who are interested.

Duly endorsed, as a voucher check must be before payment is made, the check itself affords the best evidence possible of the settlement made. In most cases it saves the expense and trouble of mailing a formal receipt.

Form 38. Note by Individual

\$1,500.00	MONTCLAIR, N. J., April 1, 1920
Ninety days.....after date I promise to pay to the order of Kendrick & Ames.....	
Fifteen Hundred and 00/100.....	
at their office, 20 Market St., Newark, N. J.	
Value received.	
No. 315, Due June 30, 1920	HAROLD A. WILSON

Form 39. Corporate Note—By President

\$500.00	NEW YORK, April 1, 1920
Ninety days after date the Delcock Dredging Company promises to pay to the order of Howard P. Hunt the sum of Five Hundred Dollars.	
Value received.	
DELCOCK DREDGING COMPANY, By NATHANIEL POTTER, President	
Payable at SEABOARD NATIONAL BANK, New York	
No. 589	

Form 40. Corporate Note—By Treasurer

\$2,500.00	BOSTON, MASS., April 2, 1920.
Four months after date the Hanover Securities Company promises to pay to the order of James C. Bennett the sum of Twenty-Five Hundred Dollars, with interest from date until paid, at the rate of Six Per Cent per annum, at the Sedgwick National Bank of Boston.	
Value received.	
HANOVER SECURITIES COMPANY, By WILLIAM CURTIS, President	
Attest Seal: JOHN J. BROWNE, JR., Treasurer	
No. 725 Due August 2, 1920	

The preceding notes are in the simplest form. The corporate signature is affixed by one officer or by two, as may be customary or required by by-law provision or directed by the board.

A corporate note is not required to be sealed. It may be signed by any officer or officers properly authorized thereto. Such authority is usually conferred by by-law provisions or by resolution of the board of directors, but otherwise may be given by custom. For large amounts or special transactions outside the usual routine, the officer's authorization should always be specific and usually by resolution of the board of directors.

The signature of a corporate note should always be the corporate signature. Any other signature not only may fail to bind the corporation, but has been held in some states to involve the official signing the note in a personal liability as its maker or indorser.

When the corporate officials are not expressly authorized to execute notes by due resolution deposited with the bank in

whose favor the notes are drawn, a certified resolution evidencing their authority is usually required.

Form 41. Corporate Note—Collateral Security

COLLATERAL NOTE

\$10,000.00

NEW YORK, April 2, 1920.

Ninety days after date the Berwick Mercantile Company promises to pay to the order of the Guaranty Trust Company of New York City, at No. 140 Broadway, New York City, the sum of Ten Thousand Dollars, with interest from date until paid at the rate of Five Per Cent (5%) per annum, and the said Berwick Mercantile Company does herewith deposit with the Guaranty Trust Company as collateral security for the due payment of the foregoing promissory note, Two Hundred (200) Shares of its stock in one Certificate No. 325, said Certificate standing in the name of Mark Baldwin, Treasurer of the said Berwick Mercantile Company, and indorsed by him in blank.

And in the event that this note or the interest thereon shall not be paid when due, the said Berwick Mercantile Company hereby appoints and constitutes the said Guaranty Trust Company its attorney-in-fact and irrevocably, with power of substitution, to sell at any time after this said note or any interest thereon is due and unpaid, with or without notice, and either at public or private sale, the whole or any part of said securities, the proceeds thereof to be applied to the payment of the said promissory note, any interest due thereon, and any commissions properly payable on the sales of said securities so sold, and any surplus remaining thereafter, either of cash or of the said securities to belong to and be subject to the order of the said Berwick Mercantile Company; and should said securities not bring the full amount of this present note, together with any interest accrued thereon, said Berwick Mercantile Company undertakes and agrees to pay the amount still due to the holder hereof on demand.

Should any such sale be made, the holder hereof shall directly or in the name of any other person, have the right to purchase the security aforesaid. In case the market value of the same shall decrease, the said Berwick Mercantile Company hereby promises and agrees to reduce proportionately the amount of its indebtedness hereunder, or otherwise increase the security in proportion to said decrease of value.

IN WITNESS WHEREOF, the said Berwick Mercantile Company has caused its name to be subscribed hereunto by its President, and its duly attested seal to be affixed hereto by its Secretary, on the day and year first above written.

{ CORPORATE
SEAL }

BERWICK MERCANTILE COMPANY,
By HENRY S. CORBIN,
President

Attest Seal:
AMOS C. HALLOCK,
Secretary

Form 42. Sight Draft

No. 745

BALTIMORE, MD., January 7, 1920

At sight.....pay to the order of
C. A. Wheeler.....\$225 00/100
Two Hundred Twenty-Five and 00/100.....Dollars
Value received, and charge same to account of

WILSON & STEWART

To UNION NATIONAL BANK,
St. Louis, Mo.

Form 43. Bank Acceptance

\$330.00

DENVER, COLO., January 24, 1920

At ninety days after sight.....pay to
the order of C. A. Wheeler.....
Three Hundred Thirty and 00/100.....Dollars
Value received, and charge same to account of

A. B. TRANNING

To COMMERCIAL EXCHANGE BANK,
New York, N. Y.
No. 678

The word "Accepted" with date and signature, and memorandum of when due, will be written in red ink across the face of the above draft when presented for acceptance at the Commercial Exchange Bank. The difference between this and the sight draft above is that this draft is paid ninety days after sight and should therefore be accepted by the drawee.

The drawee need not accept immediately on presentation but may take a reasonable time, usually twenty-four hours, to examine his accounts with the drawer and ascertain their condition.

Form 44. (a) Trade Acceptance

No. 286	New York, January 7, 1920
At ninety days after sight.....pay to the order of ourselves\$374.00	
Three Hundred Seventy-Four and 00/100.....Dollars	
Value received, and charge the same to account of	
HENDERSON & MCKENZIE	
To JAMES GRAHAM & SON, Cleveland, Ohio	

Form 44. (b) Trade Acceptance—Indorsement

Accepted
Cleveland, Ohio, February 11, 1920
Due April 3, 1920
JAMES GRAHAM & SON

Form 45. Certificate of Protest

UNITED STATES OF AMERICA } ss.:
STATE OF NEW YORK }

BE IT KNOWN, That on the day of in the year of our Lord, One Thousand Nine Hundred and, at the request of, I, ..., Notary Public duly commissioned and sworn, dwelling in the City of, County of, and State aforesaid, did present the original of for Dollars, hereunto annexed, at the where the same is payable, and demanded payment which was refused.

WHEREUPON, I, the said Notary, at the request aforesaid, did protest, and by these presents do publicly and solemnly protest, as well against the maker and indorser of the said as against all others whom it doth or may concern, for exchange or re-exchange and all costs, charges, damages, and interest, already incurred, and to be incurred for want of payment of the same.

And I, the said Notary, do hereby certify, that on the same day and year above written, due notices of the foregoing Protest were put into the Post Office at Ithaca, postage paid, or served as follows:

Notice directed.....
"
"

Each of the above-named places being the reputed place of residence of the person to whom the notice was directed.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed my Seal of Office.

{ NOTARY'S }
SEAL } Notary Public

CHAPTER CIV

FORMS OF EMPLOYMENT CONTRACTS

Form 46. Contract of Employment—Simple Form

AGREEMENT

It is agreed that James Robinson is employed by Mark & Warren, 536 Fulton St., Brooklyn, New York, as store salesman, his term to begin Monday, February 4, 1920, and his salary to be Twenty-five Dollars (\$25) per week. His duties are to act as salesman in the store of said firm and to do anything else required in the conduct of its business.

Brooklyn, N. Y.,
January 29, 1920

MARK & WARREN
JAMES ROBINSON

Form 47. Contract of Employment

AGREEMENT

By this agreement made between Blake & Hardiman and Arthur Parkman, the said firm hire and employ Arthur Parkman to assist them as an accountant in their business in Cleveland, Ohio, beginning February 2, 1920, and they agree to pay him for his services the sum of One Hundred Dollars (\$100) per month, payable at the end of each calendar month.

Arthur Parkman agrees and undertakes that he will devote his entire time and attention to the work during the period of his employment with the firm.

It is agreed between the parties hereto that either party may terminate this agreement by giving notice to the other party thirty days before the expiration of any month in which it is desired to terminate the arrangement.

The parties have hereunto signed their names in Cleveland, Ohio, January 16, 1920.

BLAKE & HARDIMAN
ARTHUR PARKMAN

The two preceding contracts are informal and are written in ordinary business English. Their purpose is to show how

simple a matter it is to put the essentials of a contract in a brief written memorandum.

Form 48. Contract of Employment by Letters

HOWARD DESK COMPANY
25 Stone St., New York

January 15, 1920

MR. WILLIS H. WALTERS,
225 Broadway, New York.

DEAR SIR:—

I am instructed by the Board of Directors to tender you the position of Sales Manager of this Company at a salary of \$1,800 per annum, payable in monthly instalments of \$150 each, your employment and duties to begin in case of your acceptance, on the 2d day of February, 1920.

Your early action in the matter will greatly oblige,

Yours very truly,

SHERWIN F. HAMILTON,
Secretary

ACCEPTANCE

NEW YORK CITY,
January 17, 1920

HOWARD DESK COMPANY,
25 Stone Street,
New York City

GENTLEMEN:—

Your letter of January 15, 1920, offering the position of Sales Manager at a salary of \$1,800 per annum, is hereby accepted. I shall close up my present engagements and be ready to begin February 2, 1920.

Yours sincerely,

WILLIS H. WALTERS

Form 49. Contract of Employment with Share in Profits

This agreement made this 10th day of February, 1920, by the firm of Wilkins, Lewis & Co., of the City and State of New York, and Theodore L. Comstock, of Jersey City, New Jersey, Witnesseth:

1. The said Comstock is hereby employed by said firm for the term of one year from March 1, 1920, renewable thereafter on like terms at the pleasure of both parties hereto, as salesman and manager of its sales department, to which the said Comstock is to give his entire time and attention.

2. The said Comstock shall receive an annual salary of Fifteen Hundred Dollars (\$1,500) for said services, payable in twelve equal instalments, at the end of each month.

3. In addition to said annual salary, the said Comstock shall receive as compensation for his services, an amount equal to ten per centum of the net profits of the said business, to be due and payable within ten days after each semiannual inventory and statement of the firm.

4. The said Comstock shall have no authority in the business outside of the sales department; he shall have no interest in the firm capital and property; he shall have no interest in the profits save as a measure to his compensation; he shall have no right to an accounting and shall in no other respects than as herein set forth, have any connection with the firm or its business.

5. It is mutually agreed that if either party to this arrangement wishes to discontinue it at the expiration of its period, and not to renew it for the like period, such party shall give the other party formal written notice not less than thirty days before the expiration thereof; otherwise this agreement shall be held to be renewed for a like period upon the same terms and conditions.

Witness the hands and seals of the parties the day and year first above written.

WILKINS, LEWIS & Co. [L.S.]
THEODORE L. COMSTOCK [L.S.]

Attest both signatures:
JAMES E. HILL

CHAPTER CV
PARTNERSHIP FORMS

Form 50. Simple Articles of Partnership

PARTNERSHIP AGREEMENT

Edward T. Craven and Milton Noble, both of the City of Rochester, New York, hereby mutually agree to become partners under the firm name of "Craven & Noble," to conduct the trade and business of sign-painting in the said City for the period of two years from date.

The said Craven invests his stock of paints, brushes, and other material, estimated to be worth Two Hundred Dollars (\$200), and the said Noble invests Two Hundred Dollars (\$200) in cash.

Both partners shall give their entire time and shall share losses and gains equally.

All amounts earned or received by either partner for work, materials, or anything pertaining to the business, shall be deposited in the Guardian Trust Company of Rochester in the name of both partners, and shall be taken out as needed for expenses and supplies, only by check signed by both partners, and an equal amount shall be drawn each Monday morning for each partner for personal expenses, but a balance of Two Hundred Dollars (\$200) shall always be kept and held.

When the firm shall be dissolved, the material on hand shall be divided equally and all debts shall be paid from the money in bank, after which the balance shall be divided equally between the partners.

Witness our hands and seals this 13th day of March, 1920.

EDWARD T. CRAVEN [L.S.]
MILTON NOBLE [L.S.]

Attest:
MARK GORHAM

An acknowledgment is not legally necessary to a partnership agreement though it is frequently appended.

Form 51. Articles of Copartnership

ARTICLES OF COPARTNERSHIP

These Articles of Copartnership entered into on this 20th day of March, 1920, by and between Edgar H. Bedell, of the City of New York, and John A. Sutton, of the City of Hartford, Connecticut, WITNESSETH:

1. The firm name of said copartnership shall be
"E. H. BEDELL & Co."

2. The offices and place of business of said firm shall be situated in the City, County, and State of New York.

3. The purpose of said firm shall be to conduct the business of buying and selling chocolate, cocoa, and their products and preparations.

4. The capital of said firm shall be the sum of Twelve Thousand Dollars (\$12,000), of which the said Edgar H. Bedell shall invest the sum of Four Thousand Dollars (\$4,000) and the said John A. Sutton shall invest the sum of Eight Thousand Dollars (\$8,000).

5. The said Bedell shall give his entire time and attention to the said business and shall engage in no other business, undertaking, or speculation during the continuance of this agreement.

The said Sutton shall give such part of his time and attention to said business as may be necessary, but shall not be required to give up his present business interests.

6. This agreement shall bind the parties hereto until the first day of January, 1924, at which time it shall terminate unless expressly continued by written agreement for a further period.

7. Neither partner may withdraw from the business an amount in excess of Two Hundred Dollars (\$200) per month, and all amounts so withdrawn shall be charged against the individual account of the partner withdrawing the same.

8. All moneys of the firm shall be deposited in a convenient bank in the City of New York, subject to withdrawal only by the check of the firm, signed with the firm name by the said Edgar H. Bedell, who shall have sole charge of the finances of the firm.

9. Books of account shall be kept, and at the end of the year a statement shall be made showing the net profits for the year, and such profits shall be divided between the said partners as follows: forty per cent of said profits to the said Bedell and sixty per cent of the said profits to the said Sutton.

10. In the event of dissolution on account of death, expiration of the term, or other cause, the parties hereto bind themselves that the partnership affairs shall be settled under the direction and according to the statements of some reputable certified public accountant of the City of Hartford.

IN WITNESS WHEREOF, the parties hereto have affixed their signatures and seals the day and year above mentioned.

EDGAR H. BEDELL [L.S.]
JOHN A. SUTTON [L.S.]

Attest:
MORRIS KENWOOD

Form 52. Sundry Partnership Clauses

1. PARTICIPATION IN BUSINESS

(a) Neither partner shall during the continuance of this partnership be concerned in any other business unless with the written consent of the other party hereto.

(b) It is understood and agreed that each partner shall devote his whole time to the business of this partnership, and shall, during its continuance, engage in no other business, nor accept any office or trust that may interfere with his attendance at its place of business.

(c) The said Marvin shall give his entire time and attention to the said business, and shall engage in no other business, undertaking, or speculation during its continuance.

(d) The said Wilson shall give to the said business such time and attention as may be necessary, but shall be at liberty to continue his present business of fire and marine insurance and to give it proper attention.

2. SECRET AND SILENT PARTNERS

(a) And it is agreed between the parties hereto that the said Bowen shall take no part in the management of the business, and that he shall not be held out as a partner, and that his connection with the said co-partnership shall not be known or announced.

(b) It is further agreed that the said Andrews shall allow the use of his name in the firm title and shall be entitled to share in the profits and shall be responsible for any losses incurred in the conduct of the firm business, but that he shall take no part in the management thereof, and shall not interfere in the conduct of the firm business.

3. AGAINST INDORSEMENT OR ASSUMPTION OF LIABILITY

(a) No note, bill, draft, check, or other obligation of the firm in excess of Fifty Dollars (\$50) shall be signed or indorsed or accepted by either partner without consultation with and consent of the other partner thereto.

(b) Neither partner alone shall bind the firm to any contract or obligation involving a liability in excess of Five Hundred Dollars (\$500), but every such contract or obligation shall require the signature of the firm name executed by both partners.

(c) During the continuance of this partnership, neither partner shall become surety or indorser, or otherwise make himself liable for the debt, default, or miscarriage of another.

(d) During the continuance of this partnership, no partner shall sign, indorse, or guarantee the payment of any commercial paper or other instrument or make himself responsible for the debt, default, or miscarriage of any other person, firm, or corporation, unless with the written consent of the other partners hereto.

4. AGAINST SPECULATION

(a) Neither partner shall engage, outside of the firm business, in any venture, speculation, or business operation of any kind involving possible gain or loss.

(b) During the continuance of this partnership, neither partner shall, either for himself or for the firm, engage in any sale, purchase, or other operation, either directly or indirectly, in or concerning stock, bonds, securities, or commodities other than those pertaining to the firm business herein set forth.

5. ACCOUNTING CLAUSES

(a) A full and correct record of the firm business shall be kept and each partner shall at all times have access to the books and records of the firm.

(b) The accounts of the firm shall be kept by double-entry book-keeping, and shall be balanced at the end of each month, and the books and records shall at all times be kept in the office of the firm and shall be open to the inspection of the partners. Each partner shall furnish the bookkeeper with a full record of all his transactions on behalf of the firm.

(c) An accounting shall be had at the close of each month, and the profits or losses shown shall be apportioned and paid to each partner as herein elsewhere provided.

(d) At or as near as may be to the first day of January in each year an inventory shall be taken, the books shall be closed, and a balance sheet prepared, showing the assets and liabilities, and the losses and gains for the preceding year. Any gain shown shall be apportioned as herein elsewhere directed, and shall be credited to the accounts of the partners entitled thereto.

(e) On or about the 30th day of June and the 31st day of December in each year, an inventory shall be taken, ten per cent discount being allowed for depreciation of plant and stock and material on hand, and such amount being deducted from bills and accounts payable as shall be agreed upon by all the partners. Then the books shall be closed and a balance sheet prepared. After deducting all rents, salaries, wages, commissions, and expenses of conducting the business, including salaries as elsewhere provided herein for the partners, the net surplus profits shall be equally divided among the partners, and a copy of the balance sheet showing such closing and apportionment shall be given to each partner who shall be concluded thereby, unless he makes written objection thereto within thirty days after the receipt thereof.

6. EMPLOYMENT OF ASSISTANTS

(a) No clerk or other employee shall be engaged or discharged save by the agreement of both partners, and no salary or wages paid to any employee shall be increased save by the agreement of both partners.

(b) No person shall be employed in the firm business by any partner without consultation with and agreement thereto of all the members of the firm, and no person employed by the firm shall receive any increase of wages without the agreement of all members of the firm, and no employee shall be discharged without the agreement of all members of the firm except in case of gross misconduct or insolvency.

CHAPTER CVI

CORPORATE ORGANIZATION FORMS¹

Form 53. Subscription List

SUBSCRIPTION LIST

PARKMAN METAL WORKING COMPANY

To be Incorporated under the Laws of New Jersey

Capital Stock.....\$500,000
Shares.....\$100 each

We, the undersigned, hereby severally subscribe at the par value thereof for the number of shares of the Capital Stock of the Parkman Metal Working Company set opposite our respective names, and agree to pay for the same in cash on demand of its Treasurer as soon as said Company is organized.

New York City, March 1, 1920.

NAMES	ADDRESSES	SHARES	AMOUNT
Harry H. Burton	20 Broad St., New York	20	\$2,000
William McClellan	36 West 23rd St., New York	10	1,000

This subscription list is informal but will be found sufficient where the purposes and conditions of the subscription are well understood. It is to be noted that subscriptions under it—as is true of most of the usual forms of subscription agreements—are not binding until the company has been incorporated. Prior thereto they are merely continuing propositions to a corporation which is not yet organized and is therefore incapable of becoming a party to a contract. Hence until incorporation such subscriptions may be revoked at the will of the subscribers.

¹ For additional corporate forms, see Forms 17, 29-33, 35-41.

Form 54. Stock Certificate—Common Stock

20 Shares

No. 125

Certificate No. 125

For 20 shares.

Issued to

Howard H. McNeil,
35 William St.,
New York.

Dated, February 10, 1920.

From Whom Transferred,

James H. Stanley.

Dated, October 1, 1919.

No. Original Certificate	No. Original Shares	No. of Shares Transferred
16	20	20

Received Certificate No. 125
for 20 Shares, this 12th day
of March, 1920.

HOWARD H. McNEIL

Incorporated under the Laws of
The State of New Jersey

MORGAN MANUFACTURING COMPANY

Capital Stock.....\$200,000

Common Stock....\$150,000

Preferred Stock...\$50,000

Full-paid and Non-assessable

THIS IS TO CERTIFY that Howard H. McNeil is the owner of Twenty Shares of the Common Capital Stock of the Morgan Manufacturing Company, transferable only on the books of the Company by the said owner thereof in person or by his duly authorized attorney, upon surrender of this Certificate, properly indorsed.

Witness the Seal of the Company and the signatures of its duly authorized officers affixed in Trenton, New Jersey, this 10th day of February, 1920.

{ CORPORATE
SEAL }

JAMES CORNISH,

Treasurer

ANGUS McDONALD,

President

Shares, \$100 each

Any certificate which clearly indicates the stock it represents and the ownership of this stock, is legally sufficient regardless of its form and style. As a matter of business, however, and of good taste as well, a neat and presentable certificate is always to be preferred.

It is customary for two of the company officials to sign stock certificates; also for the corporate seal to be affixed. The officers to sign stock certificates are usually designated by the by-laws of the corporation, though in some states they are prescribed by statute. The president is always required to be one of the signing officials, and the secretary or treasurer is designated as the other.

The words "full-paid and non-assessable" should not appear upon the face of a stock certificate unless the corporation has been paid in full for the stock represented therein.

Stock certificates are numbered consecutively and are issued in the order of their numbers, as a matter not of legal obligation but merely of convenience.

The certificates for preferred stock are similar to those for common stock, except that the special provisions as to the privileges enjoyed by the holders are printed in full. Usually when a corporation issues both kinds of stock, they are distinguished by having the class printed in large lettering on the certificates.

Form 55. Assignment of Stock Certificate

For Value Received, (I) hereby sell and transfer unto (Martin T. Marshall, of New York City, Twenty-five) Shares of the Capital Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint (Chester A. Slater) my Attorney to transfer the said stock on the books of the within-named Company, with full power of substitution in the premises.

(ELLIS K. DOYLE)

Dated, (March 1, 1920)

In the presence of:

(CHARLES T. ESTABROOK)

Stock is transferred by assignment, the form for which is printed or lithographed upon the back of the certificate. This form may be executed in the partially completed condition known as an assignment in blank, and may then pass from hand to hand without further formality.

When the owner of a certificate assigned in blank wishes to become the owner of record of the stock it represents, he completes the assignment by the insertion of his own name as in the preceding form. He may or may not fill in the name of his attorney at his discretion.

Form 56. Certificate of Incorporation—New York

CERTIFICATE OF INCORPORATION

of the

PIEDMONT SCALE COMPANY

We, the undersigned, all being of full age and two-thirds being citizens of the United States and one of us a resident of the State of New York, for the purpose of forming a corporation under the Business Corporations Law of the State of New York, do hereby certify and set forth:

First—The name of said corporation shall be

"PIEDMONT SCALE COMPANY."

Second—The purposes for which said corporation is to be formed are as follows:

(a) To manufacture, buy, sell, import, export, and generally deal in and with scales, weighing machines, and mechanical devices for weighing, measuring, and recording the weight and measurement of all kinds of goods, and merchandise.

(b) To apply for, obtain, purchase, or otherwise acquire, and to register, hold, own, use, operate, sell, assign, or otherwise dispose of and turn to account and profit, any and all trade-marks, improvements, inventions, tools, apparatus, mechanisms, and machinery, useful or necessary in the operations of the Company, whether secured under letters patent of the United States or of any foreign country, or held or secured in any other manner.

(c) To take, lease, hire, purchase, manufacture, or otherwise acquire and own, and to sell, hire, lease, pledge, mortgage, and otherwise deal in and with all kinds of goods, wares, chattels, merchandise, and other personal property, excepting gold and silver bullion, foreign coins, and bills of exchange.

Third—The amount of capital stock of said corporation shall be Five Hundred Thousand Dollars (\$500,000).

The amount of capital with which said corporation will begin business is Five Hundred Dollars (\$500).

Fourth—The number of shares of which said capital stock is to consist shall be Five Thousand (5,000) Shares of the par value of One Hundred Dollars (\$100) each.

Fifth—The principal office of the corporation shall be in the Borough of Manhattan and in the City, County, and State of New York.

Sixth—The duration of said corporation shall be perpetual.

Seventh—The number of directors of said corporation shall be three.

Eighth—The names and post-office addresses of the directors for the first year are as follows:

NAMES	ADDRESSES
Howard Maxwell	510 West 176th Street, New York City
Howard J. McCall	270 Broadway, New York City
Edward Blashfield	30 Broad Street, New York City

Ninth—The names and post-office addresses of the subscribers to this certificate and the number of shares which each agrees to take in said corporation, are as follows:

NAMES	ADDRESSES	SHARES
Howard Maxwell	510 West 176th Street, New York City	460
Howard J. McCall	270 Broadway, New York City	20
Edward Blashfield	30 Broad Street, New York City	20

Tenth—At all elections of directors of this corporation, each stockholder shall be entitled to as many votes as shall equal the number of his shares of stock, multiplied by the number of directors to be elected, and he may cast all of such votes for a single director or may distribute them among the number to be voted for, or any two or more of them, as he may see fit.

IN WITNESS WHEREOF, we have made and signed this Certificate in duplicate, this 27th day of April, in the year One Thousand Nine Hundred and Twenty.

HOWARD MAXWELL
HOWARD J. MCCALL
EDWARD BLASHFIELD

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss:

Personally appeared before me this 27th day of April, 1920, Howard Maxwell, Howard J. McCall, and Edward Blashfield, to me personally known to be the persons described in and who executed the foregoing certificate, and severally acknowledged that they executed the same for the purposes therein set forth.

{ NOTARIAL
SEAL }

OSCAR JACOBS,
Notary Public, Suffolk County, N. Y.
Certificate filed in New York County.

Form 57. By-Laws—Simple Form

By-LAWS
of the

NEW YORK CONSTRUCTION COMPANY

New York City

ARTICLE I—STOCK

1. *Certificates of Stock* shall be issued to each holder of full-paid stock, in form approved by the Board of Directors; shall be numbered consecutively; be issued in numerical order from the stock certificate book; be signed by the President and Secretary, and be sealed with the corporate seal. A record of each certificate issued shall be kept on the stub thereof.

2. *Transfers of Stock* shall be made only upon the books of the Company, and before a new certificate is issued, the old certificate properly indorsed, shall be surrendered. Surrendered certificates shall be cancelled and be attached to their proper stubs in the stock certificate book. The stock books of the Company shall be closed to transfers twenty days before general elections and ten days before dividend days.

3. *The Treasury Stock* of the Company shall include such issued and outstanding stock of the Company as may be acquired by purchase, donation or otherwise and shall be held subject to disposal by the Board of Directors. Such stock shall neither vote nor participate in dividends while held by the Company.

ARTICLE II—STOCKHOLDERS

1. *The Annual Meeting* of the stockholders of the Company shall be held in the principal office of the Company in New York City, at 10 o'clock A.M. on the third Monday of January of each year—if not a legal holiday; but if a legal holiday, then on the next business day succeeding—for the purpose of electing directors and the transaction of such other business as may be brought before the meeting.

2. *Special Meetings* of the stockholders shall be held at the principal office of the Company and may be called by the President at his discretion and must be called by him when so directed by resolution of the Board of Directors, or when requested thereto in writing by stockholders holding one-third of the outstanding stock.

3. *Notice of Meetings*, written or printed, for every annual or special meeting of the stockholders shall be prepared and mailed to the post-office address of each stockholder as shown by the stock books of the Company not less than ten days before such meeting, and if for a special meeting such notice shall state the object or objects thereof, and no other business shall be transacted at any such special meeting save that so notified. No failure or irregularity of notice of any regular meeting shall invalidate such meeting or any proceeding thereat.

4. *A Quorum* at any meeting of the stockholders, save as otherwise prescribed by statute, shall consist of a majority of the voting stock of the Company represented in person or by written proxy. A majority of

such quorum shall be necessary to decide any question coming before the meeting.

5. *The Election of Directors* shall be held at the annual meeting of stockholders, and shall be by ballot conducted by two inspectors of election appointed, after the first election, by the President.

6. *The Presiding Officer* at meetings of stockholders shall be the President, or in his absence or disability, the Vice-President. In the absence or disability of both of these officers, a Chairman shall be chosen by the stockholders present and shall preside at such meeting.

7. *The Order of Business* at the annual meeting and as far as possible at all other meetings of the stockholders, shall be:

1. Calling of Roll
2. Proof of Due Notice of Meeting
3. Reading and Disposal of Any Unapproved Minutes
4. Annual Reports of Officers and Committees
5. Election of Directors
6. Unfinished Business
7. New Business
8. Adjournment

ARTICLE III—DIRECTORS

1. *The Business and Property* of the Company shall be managed by a Board of three (3) Directors, who shall be stockholders and who shall be elected annually by ballot by the stockholders for the term of one year, and shall serve until the election and acceptance of their duly qualified successors. Any vacancy in the Board may be filled by the remaining members of the Board for the unexpired term. Directors shall receive no compensation for their services as such.

2. *The Regular Meetings* of the Board of Directors shall be held in the principal office of the Company in New York City at 3 P.M. on the third Tuesday of each month if not a legal holiday; but if a legal holiday, then on the next succeeding business day.

3. *Special Meetings* of the Board of Directors, to be held in the principal office of the Company in New York City, may be called at any time by the President or by any three members of the Board, or may be held at any time and place without notice and for the transaction of any business, by unanimous written consent of all the members, or by the presence and participation of all the members at such meeting.

4. *Notices* of both regular and special meetings shall be mailed by the Secretary to each member of the Board not less than five days before any such meeting, and notices of special meetings shall state the purposes thereof, and no other business shall be transacted at a special meeting save as so notified unless by unanimous consent of all the members. No failure or irregularity of notice of any regular meeting shall invalidate such meeting or proceeding thereat.

5. *A Quorum* at any meeting shall consist of a majority of the entire membership of the Board. A majority of such quorum shall be necessary to decide any question that may come before the meeting. If a quorum is not present at any duly assembled meeting, a majority of those present may adjourn the meeting from day to day but may transact no other business until a quorum is secured.

6. *Voting.* Each member of the Board present in person at any meeting shall have one vote upon all matters voted upon at such meeting.

7. *The Presiding Officer* at meetings of the Directors shall be the President, or in his absence or disability, the Vice-President.

8. *Officers* of the Company shall be elected by the Board of Directors at their first meeting after the election of Directors each year. If any office becomes vacant during the year, the Board of Directors shall fill the same for the unexpired term. The Board of Directors shall fix the compensation of the officers and agents of the Company. An officer may be removed at any time by a two-thirds vote of the entire membership of the Board.

9. *The Order of Business* at any regular meeting or special meeting of the Board of Directors shall be:

1. Reading and Disposal of Any Unapproved Minutes
2. Reports of Officers and Committees
3. Unfinished Business
4. New Business
5. Adjournment

ARTICLE IV—OFFICERS

1. *The Officers* of the Company shall be a President, who shall be elected from among the Directors, a Vice-President, a Secretary, and a Treasurer, all of whom shall be elected for one year and shall hold office until their successors are elected and qualify. The positions of Secretary and Treasurer may be united in one person.

2. *The President* shall preside at meetings of stockholders and of Directors; shall have general supervision of the affairs of the Company; shall sign or countersign all certificates, contracts, and other instruments of the Company as authorized by the Board of Directors; shall make reports to the Directors and stockholders, and perform all such other duties as are incident to his office or are properly required of him by the Board of Directors. In the absence or disability of the President, the Vice-President shall exercise all his functions.

3. *The Secretary* shall issue notices for all meetings of both stockholders and Directors; shall keep their minutes; shall have charge of the seal and the corporate stock books; shall sign with the President all instruments requiring such signature; and shall make such reports and perform such other duties as are incident to his office or are properly required of him by the Board of Directors.

4. *The Treasurer* shall have the custody of all moneys and securities of the Company and shall keep regular books of account and balance the same each month. He shall sign or countersign such instruments as require his signature; shall perform all duties incident to his office or that are properly required of him by the Board; and shall give bond for the faithful performance of his duties in such sum and with such sureties as may be required by the Board of Directors.

ARTICLE V—DIVIDENDS AND FINANCE

1. *Dividends* shall be declared only from surplus profits at such times as the Board of Directors shall direct, and no dividend shall be declared that will impair the capital of the Company.

2. *The Moneys* of the Company shall be deposited in the name of the Company in such bank or trust company as the Board of Directors shall designate, and shall be drawn out only by check signed by the Treasurer and countersigned by the President.

ARTICLE VI—SEAL

1. *The Corporate Seal* of the Company shall consist of two concentric circles, between which appears the name of the Company, and in the centre shall be inscribed "Incorporated 1920, New York," and such seal, as impressed on the margin hereof, is hereby adopted as the Corporate Seal of the Company.

ARTICLE VII—AMENDMENTS

1. *These By-Laws* may be amended, repealed, or altered, in whole or in part, by a majority vote of the entire outstanding stock of the Company, at any regular meeting of the stockholders, or at any special meeting where such action has been announced in the call and notice of such meeting.

As the general corporate mechanism is much the same in all corporations, there is a general resemblance between their by-laws. The details of these by-laws should, however, in each case be adapted to the special requirements of the corporation for which they are prepared. (See Chapter LI, "By-Laws.")

The set of by-laws given above, though particularly intended to illustrate the references of the present volume to the by-laws, has been proved by long experience to supply excellent material from which to construct the by-laws of any particular corporation.²

² A more extended set of by-laws suitable for the larger corporations may be found in the author's work, "Corporate Organization and Management."

CHAPTER CVII

FORMS FOR CORPORATE MEETINGS

Form 58. Call and Waiver for Special Meeting of Directors

CALL AND WAIVER

SPECIAL MEETING OF DIRECTORS

We, the undersigned, all the Directors of the Long Island Power Company of Flushing, Long Island, do hereby call a special meeting of the Board of Directors of said Company to be held in its office at No. 285 Duane St., New York City, at 4 o'clock P.M. on this 22nd day of January, 1920, for the purpose of acting upon a proposition for the sale of the Company's Flushing plant, and we do hereby waive all statutory and by-law requirements as to notice of time, place, and purposes of said meeting, and consent to the transaction thereof of any and all business pertaining to the affairs of the Company.

New York City, N. Y.,
January 22, 1920

JOHN McFERGUSON
HAROLD H. HARDING
BENTON CRELLER
HOWARD H. MAURICE
HORACE EVANS

Special meetings of directors are usually assembled by means of call and waiver, except where the board is large or some of its members are inaccessible.

Form 59. Agreement to Consent Meeting of Directors

HARRISON CUTLERY COMPANY

WAIVER OF NOTICE

We, the undersigned, all the Directors of the Harrison Cutlery Company, being now present, do hereby consent to an immediate meeting of the Board of Directors of said Company to be held in the office of Henry H. McCall, No. 253 Broadway, New York, at 3 o'clock P.M. this 16th day

of February, 1920, and we hereby waive all requirements as to notice of time, place, and purposes of such meeting, and agree to the transaction thereof of any and all business pertaining to the affairs of the Company.

HENRY H. McCALL
SIMON FRANKENSTEIN
JAMES J. McCALL
HOWARD H. FRENKEL
STANLEY T. BROWN

For such meetings a written validation is not strictly necessary. The participation of all the parties entitled to be present, duly entered on the minutes of the meeting, affords legal evidence of their consent thereto and estops any subsequent objections on their part to the proceedings. As a precautionary measure, however, the secretary should have every member of the board sign the minutes of a consent meeting, or otherwise sign a waiver of notice and agreement to the meeting as given above.

Form 60. Notice of Special Meeting of Directors

HYDRO-CARBON STEEL COMPANY
134 West 23rd St., New York City

March 15, 1920

MR. WALTER H. SINCLAIR,
Montclair, New Jersey.

DEAR SIR:—

You are hereby notified that pursuant to call of the President, a special meeting of the Board of Directors of this Company will be held in its office at 3 o'clock P.M. on the 18th day of March, 1920, to act upon a proposition to purchase the plant of the Scranton Foundry Company and to transact such other business in connection therewith as may be necessary or desirable.

Respectfully yours,
MILTON H. SANDERSON,
Secretary

This notice must be sent to every member of the board. The time, place, and purpose of the meeting must be stated, and, unless every member of the board is present and agrees

thereto, no business may be transacted at the meeting save that so specified.

Notice of a regular meeting of the directors would be similar to the notice of a special meeting, but would usually merely state the time and the place of meeting, omitting purposes.

It is but rarely that publication notices are used in assembling directors' meetings. The foregoing notice might be readily modified, if desired, to serve as a publication notice.

Form 61. Minutes of Special Meeting of Stockholders

MIDVALE FOUNDRY COMPANY
OF
NEW JERSEY

MINUTES OF SPECIAL MEETING OF STOCKHOLDERS
Held January 19, 1920

The stockholders of the Midvale Foundry Company assembled in special meeting in the office of the Company at Midvale, New Jersey, at 10 o'clock in the forenoon on the 19th day of January, 1920, pursuant to call of the President followed by due notice thereof to the stockholders.

The meeting was called to order by Mr. Frederick H. Colgate, President of the Company; the Secretary of the Company, Mr. W. A. Thompson, officiating as recording officer.

The entire capital stock of the Company was represented at the meeting, either in person or by proxy filed with the Secretary.

The Secretary presented the Call and Notice pursuant to which the meeting was held, with his certificate that said notice had been sent out not less than twenty days before the date of meeting. The Call and Notice were ordered spread upon the Minute Book immediately following the minutes of the meeting.

(Statement of special business should follow with record of action taken.)

There being no further business, the President declared the meeting adjourned.

FREDERICK H. COLGATE,
President

W. A. THOMPSON,
Secretary

Call and Notice of meeting appended hereto in accordance with the requirements of the foregoing minutes.

W. A. THOMPSON,
Secretary

The general form in which minutes are kept is a matter of custom. The details are determined by the secretary of the particular company. The headings should, however, always be sufficiently full and explicit to show at a glance whether the meeting is of stockholders or directors and whether it is a regular, special, or adjourned meeting.

The name of the corporation is frequently brought in at the head of every set of minutes. When this is not done the minute book should itself be very plainly stamped or marked with the name of the company, which should also appear on the title page of the book and again at the top of the first written page of minutes.

Form 62. Minutes of Regular Meeting of Directors

FAIRFIELD CEMENT COMPANY

OF

NEW YORK

MINUTES OF REGULAR MEETING OF DIRECTORS

Held February 7, 1920

The Board of Directors of the Fairfield Cement Company of New York met in regular meeting pursuant to due call and waiver, in the office of the Company at Fairfield, New York, at 3 o'clock in the afternoon on the 7th day of February, 1920.

The meeting was called to order and presided over by Mr. William A. Pierce, President. The Secretary of the Company, Mr. Morris H. Goodrich, recorded the proceedings of the meeting.

There were present Messrs. William A. Pierce, John H. Pickering, Walter S. Loughton, John K. Bates, Fred N. Barney, Silas H. Harvey, and Morris H. Goodrich, constituting a quorum of the Board.

The Secretary read the minutes of the last regular meeting and, no objection being made, they were ordered to stand approved.

(The regular order of business then follows, and record of action under each head.)

There being no further business before the meeting, it was declared adjourned.

WILLIAM A. PIERCE,
President

MORRIS H. GOODRICH,
Secretary

Form 63. Motions

1. MOTION TO RECEIVE PRESIDENT'S REPORT

On motion duly seconded and unanimously carried, the President's report was ordered received and filed.

2. MOTION INSTRUCTING SECRETARY TO CAST VOTE

There being no other nominations, the Secretary was instructed by motion unanimously carried, to cast the single ballot of the meeting for the five candidates for Directors already named.

3. MOTION TO AMEND BY-LAWS

By motion unanimously carried, Section 1 of Article II of the By-Laws was amended by changing the hour for the assembling of the annual meeting of the Company from 12 o'clock noon to 3 o'clock P.M.

4. MOTION TO APPOINT AN INVESTIGATING COMMITTEE

Moved, that the President be authorized and directed to appoint a committee consisting of three Directors of this Company, to investigate the books and accounts of the Treasurer for the past three years, such committee to have full access to the Company's financial records and to have authority to employ a certified public accountant to conduct the technical work necessary.

The forms given above show motions as they appear in the secretary's minutes. The forms are the same for either stockholders' or directors' minutes.

An amendment to the by-laws is usually effected by a formal resolution. In example above, as the amendment was of a minor matter, it is entered in the form of a motion.

A formal motion in writing should appear on the minutes in the exact form submitted, and should be introduced by an explanatory statement, as: "The following motion offered by Mr. Wilson was duly seconded and carried by unanimous vote."

Form 64. Directors' Resolutions

1. RESOLUTION TO OPEN BANK ACCOUNT

RESOLVED, That the Treasurer be and hereby is authorized and instructed to open an account for the Company with the Seaboard National

Bank of New York City, and to deposit therein all funds of the Company coming into his possession, such account to be in the name of the Company and funds deposited therein to be withdrawn only by check signed by the Treasurer and countersigned by the President.

2. RESOLUTION AUTHORIZING ISSUE OF STOCK

RESOLVED, That the President and the Treasurer be and hereby are authorized and directed to issue certificates of the full-paid Capital Stock of this Company to the aggregate amount of Ten Thousand Dollars (\$10,000), and to deliver the same to the written order of Robert H. Stuart, Fiscal Agent for the Company, against payment into the treasury of the Company of the full par value thereof.

3. RESOLUTION AUTHORIZING CONTRACT

RESOLVED, That the President and Secretary be and hereby are authorized and instructed to enter into a contract with the Wilbur Collins Construction Company on behalf of this corporation, for the erection of a power-house, the construction of said power-house to be in accordance with the plans and specifications on file in the office of this corporation and the cost thereof not to exceed Twenty-Five Thousand Dollars (\$25,000), payment thereof to be made as set forth in the written proposition heretofore submitted to this corporation by the said Wilbur Collins Construction Company.

4. RESOLUTION DECLARING DIVIDEND

RESOLVED, That the sum of Ten Thousand Dollars (\$10,000) be and hereby is appropriated and set aside from the surplus profits of this Company for the payment of the regular Two Per Cent (2%) quarterly dividend upon its outstanding stock, said dividend to be due and payable on the 20th day of January 1920, to stockholders of record as shown by the books of the Company at the close of business on the 15th day of January, 1920.

RESOLVED FURTHER, That the Treasurer of this Company be hereby authorized and instructed to give due notice of such dividend and to pay the same when due.

Form 65. Certified Resolution Designating Bank

(For Resolution see Form 64.)

I, Sherman H. Rogers, Secretary of the Allis Drug Company, do hereby certify that the foregoing is a full and true transcript of a resolution duly adopted at a regular meeting of the Board of Directors of the said Company held in the City of New York on the 10th day of February, 1920, as it appears on the minutes of said meeting, and I do further certify

that Charles Allis is the duly elected President of said Company, and Jasper T. Huntington is its duly elected Treasurer.

IN WITNESS WHEREOF, I have hereunto affixed my official signature and the corporate seal of said Company, this 26th day of February, 1920.

{ CORPORATE
SEAL }

SHERMAN H. ROGERS,
Secretary

In this form of certified resolution the resolution appears on the upper part of the sheet followed by the certification.

CHAPTER CVIII

MISCELLANEOUS CORPORATE FORMS

Resignations may be divided into two general classes: those which are so phrased as to be completely effective without an acceptance, which may be termed peremptory resignations, and those which are tentative in their nature and therefore not effective until accepted.

Form 66. Resignation of Director—Tentative

To the Board of Directors of the
HOWARD SCALE COMPANY:
GENTLEMEN:—

On account of my continued ill health, which prevents my proper attention to the duties of the position, I hereby tender my resignation as a member of your body.

Very respectfully,
HENRY H. GALE

New York City,
January 29, 1920

If a resignation of this latter kind is accepted without qualification, its effect is immediate, and the resigning director, though present at the meeting, ceases to be a director at the moment the resolution or motion of acceptance is adopted. A party tendering such a resignation has the right to withdraw it or to revoke it at any time prior to its acceptance.

The following resignation terminates the official status of the party signing it as soon as the document is filed with the secretary of the company. No action of the board is required, nor can the board in any way prevent its effect.

MISCELLANEOUS CORPORATE FORMS

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Form 67. Resignation of Director—Peremptory

To the Board of Directors of the
FRANKLIN ELECTRIC CORPORATION:
GENTLEMEN:—

I hereby resign my position as a director of the Franklin Electric Corporation, my resignation to take immediate effect.

Respectfully,
WILLIAM H. COLLINS

New Brighton, Pa.,
March 22, 1920

A committee report, unless of considerable length, is usually presented and read. If too long to permit of this, and of sufficient importance to justify the expense, it is printed for distribution.

Form 68. Report of Committee on By-Laws

TERREBONNE CEMENT COMPANY
REPORT OF COMMITTEE ON BY-LAWS

To the Stockholders of the
TERREBONNE CEMENT COMPANY:
GENTLEMEN:—

Your committee appointed at the last annual meeting of the stockholders to report any needed modification in the By-laws of this Company, begs to submit the following:

1. We would recommend the addition of a By-law providing for an Executive Committee, to consist of three members of the Board of Directors, such Committee to have full control of the general business affairs of the Company in the interim between meetings of the Board.
2. We would recommend that the present By-law relating to the regular meetings of the Board of Directors be so changed as to provide for quarterly meetings instead of monthly meetings as at present.
3. We strongly disapprove of the suggested amendment to the By-laws whereby the amount of indebtedness which may be incurred by the directors on behalf of the Company at any one time is increased from \$10,000 to \$25,000, as we believe such change to be not only unnecessary but against the interests of the Company.

Respectfully submitted,
JAMES F. GOUGH
HARKNESS B. LEWIS
OLIVER H. SIMPSON
Committee on By-laws

Form 69. Treasurer's Affidavit—Corporate Statement

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

On this 19th day of February, 1920, personally appeared before me, a Notary Public in and for the County of New York, Walter L. Hood, Treasurer of the Hood Scale Company, who, being duly sworn, did depose and say that he has full charge and control of the books and accounts of the said Company; that the above and foregoing statement is taken from said books and accounts; that it is a true and accurate transcript therefrom; and that to the best of his knowledge and belief it is a just and correct presentation of the financial condition of said Company on this date.

WALTER L. HOOD

Sworn to before me the
day and year aforesaid.

{ NOTARIAL }
SEAL

JAMES H. STEELE,
Notary Public for
New York County, No. 994.

Term expires February 14, 1921

The treasurer's certification to matters relating to the corporate finances is usually in the form of an affidavit. This affidavit follows the statement on the same sheet, or on the last sheet if the statement extends over several pages.

CHAPTER CIX

REAL AND PERSONAL PROPERTY FORMS

Form 70. Chattel Mortgage

CHATTEL MORTGAGE

KNOW ALL MEN BY THESE PRESENTS:

That I, Harry J. Thomas, of New Rochelle, New York, am indebted unto W. H. Richards, of New York City, New York, in the sum of Eighty-Five Dollars (\$85), being for goods sold and delivered to me: Now, for securing the payment of the said debt, and interest from the date hereof, to the said W. H. Richards, I do hereby sell, assign, and transfer to the said W. H. Richards all the goods, chattels, and property described in the following schedule, namely.

(List of property)

Said property now being and remaining in the possession of myself, at my store, No. 165 Orchard Street, New Rochelle, New York.

Provided always, and this mortgage is on the express condition, that if the said Harry J. Thomas shall pay to the said W. H. Richards the sum of Eighty-Five Dollars (\$85), within one year and six months from the date hereof, with interest at Six Per Cent (6%) per annum, which said sum and interest the said Harry J. Thomas hereby covenants to pay, then this transfer is to be void and of no effect; but in case of non-payment of the said sum at the time or times above mentioned, together with interest, then the said W. H. Richards shall have full power and authority to enter upon the premises of the said party of the first part, or any other place or places where the goods and chattels aforesaid may be, to take possession of said property to sell the same, and the avails (after deducting all expenses of the sale and keeping of the said property) to apply in payment of the above debt; and in case the said W. H. Richards shall at any time deem himself unsafe, it shall be lawful for him to take possession of such property and sell the same at public or private sale, previous to the time above mentioned for the payment of said debt, and apply the proceeds as aforesaid, after deducting all expenses of the sale and keeping of said property. If from any cause, said property shall fail to satisfy said debt, interest, costs, and charges, the said Harry J. Thomas hereby covenants and agrees to pay the deficiency.

IN WITNESS WHEREOF, I have hereunto affixed my hand and seal, this eleventh day of February, nineteen hundred and twenty.

HARRY J. THOMAS [L.S.]

In the presence of:

GEORGE H. GOODWIN

(Notarial acknowledgment in due form if required)

Form 71. Lease

LEASE

This Agreement of Lease made this 9th day of February in the year 1920, between John K. Robinson of Yonkers, New York, and Henry Smith of Yonkers, New York.

WITNESSETH, that the said Robinson does demise unto the said Smith, all of that dwelling-house and land situate

(Full description)

from the first day of April, 1920, for the term of three years next ensuing, the said lessee, Smith, to pay therefor, during the said term, the rent of Four Hundred and Fifty Dollars (\$450) yearly, payable in equal monthly instalments of Thirty-Seven Dollars and Fifty Cents (\$37.50) on the first day of each month, the first instalment to be paid on the first day of April next.

The said lessee covenants to pay the rent in the manner above stated; that he will not assign without leave; that he will leave the premises in good repair, necessary wear and tear excepted; that the premises shall not be used during the said term for any other purpose or purposes than those above specified; that he will pay all bills for gas used upon the premises during the said term; that at the expiration of the said term, he will deliver to said lessor, his agents or assigns, quiet and peaceable possession of the said premises, and that the lessor may re-enter for default of ten days in the payment of any instalment of rent, or for the breach of any covenant herein contained.

Witness the following signatures and seals.

JOHN K. ROBINSON [L.S.]
HENRY SMITH [L.S.]

(Notarial acknowledgment in due form)

Form 72. Deed with Full Covenants

DEED

THIS INDENTURE, made the 21st day of January, nineteen hundred and twenty, between Arthur Elliott of Ithaca, New York, party of the first part, and Grant Allen of Oyster Bay, New York, party of the second part:

WITNESSETH, that the party of the first part, in consideration of Three Thousand Dollars (\$3,000), lawful money of the United States, paid by the party of the second part, does hereby grant and release unto the party of the second part, his heirs and assigns forever, all . . .

(Description)

Together with the appurtenances and all the estate and rights of the party of the first part in and to said premises;

To have and to hold the premises herein granted unto the party of the second part, his heirs and assigns forever.

And said Arthur Elliott covenants as follows:

First—That said Arthur Elliott is seized of said premises in fee simple, and has good right to convey the same;

Second—That the party of the second part shall quietly enjoy the said premises;

Third—That the said premises are free from incumbrances;

Fourth—That the party of the first part will execute or procure any further necessary assurance of the title to said premises;

Fifth—That said Arthur Elliott will forever warrant the title to said premises.

IN WITNESS WHEREOF, the party of the first part has hereunto set his hand and seal the day and year above written.

In presence of:

A. M. WYCKOFF

ARTHUR ELLIOTT [L.S.]

(Notarial acknowledgment in due form)

Form 73. Real Estate Mortgage

MORTGAGE

THIS MORTGAGE, made the 16th day of February, nineteen hundred and twenty, between Daniel H. Coler of Yonkers, New York, the mortgagor, and Charles Fenner of the same place, the mortgagee.

WITNESSETH, that to secure the payment of an indebtedness in the sum of Twelve Hundred Dollars (\$1,200) lawful money of the United States, to be paid on the 15th day of February, nineteen hundred and twenty-two, with interest thereon to be computed from date, at the rate of Six Per Centum (6%) per annum, and to be paid the mortgagee, according to a certain bond or obligation bearing even date herewith, the mortgagor hereby mortgages to the mortgagee . . .

(Description)

And the mortgagor covenants with the mortgagee as follows:

1. That the mortgagor will pay the indebtedness as hereinbefore provided.

2. That the mortgagor will keep the buildings on the premises insured against loss by fire for the benefit of the mortgagee.

3. That no building on the premises shall be removed or demolished without the consent of the mortgagee.

4. That the whole of said principal sum shall become due after default in the payment of any instalment of principal or of interest for thirty days, or after default in the payment of any tax, water rate, or assessment for ten days after notice and demand.

5. That the holder of this mortgage, in any action to foreclose it, shall be entitled to the appointment of a receiver.

6. That the mortgagor will pay all taxes, assessments, or water rates, and in default thereof, the mortgagee may pay the same, and all amounts so paid shall be added to the amount already secured by this mortgage.

7. That the mortgagor, within five days upon request in person or within ten days upon request by mail, shall furnish a statement of the amount due on this mortgage.

8. That notice and demand or request may be in writing and may be served in person or by mail.

9. That the mortgagor warrants the title to the premises.

IN WITNESS WHEREOF, this mortgage has been duly executed by the mortgagor.

In presence of:

DANIEL H. COLER [L.S.]

ANNA B. TYLER

(Notarial acknowledgment in due form)

The foregoing instruments affecting realty are made according to "short forms." It is safest always to look up the matter and find out what forms can be used in the particular state where the land transferred is situated. The forms of deeds, mortgages, and notarial acknowledgments are prescribed by law in each state. It is always easier and less trouble to follow precedent in legal matters; in other words, to keep in the well-worn ruts and not to try experiments.

CHAPTER CX

SUNDRY FORMS

Form 74. General Release

GENERAL RELEASE

TO ALL TO WHOM THESE PRESENTS SHALL COME OR MAY CONCERN,
GREETINGS:

KNOW YE, That I, A. B. COREY of New York City, for and in consideration of the sum of Sixty Dollars (\$60), Twenty Dollars (\$20) of which has heretofore been received by me, and Forty Dollars (\$40) to me in hand paid, by Harvey M. Price of New York City, the receipt whereof is hereby acknowledged, have remised, released, and forever discharged, and by these presents do for myself, my heirs, executors, and administrators, remise, release, and forever discharge, the said Harvey M. Price, his heirs, executors, and administrators, of and from any and all manner of action and actions, suits, debts, dues, sums of money, accounts, bonds, bills, contracts, damages, judgments, claims, and demands whatsoever, in law or in equity, which against said Harvey M. Price I ever had, for, upon, or by reason of any matter, cause, or thing whatsoever, from the beginning of the world to the date of these presents.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 18th day of February, one thousand nine hundred and twenty.

Sealed and delivered
in the presence of
MARY A. LAKE

A. B. COREY [L.S.]

In any settlement of a matter in dispute, it is prudent to provide evidence to show that the matter is finally decided. Frequently a simple receipt for any amount paid "in full settlement of all claims" is enough. Where a more formal instrument is desired, a release is drawn up in the form as given above. Sometimes the parties exchange releases, so that each may have written evidence of the settlement.

Form 75. Will

I, Russell Sage, of the City and State of New York, do hereby make, publish and declare this my last Will and Testament, in manner and form following:

First: I direct that all my just debts and funeral expenses be paid as soon after my decease as conveniently can be done.

Second: I give and bequeath to my sister, Fanny Chapin, wife of Samuel Chapin, of Oneida, New York, should she survive me, the sum of Ten thousand (\$10,000) dollars.

Third: I give and bequeath to each and every one of my nephews and nieces of my own blood me surviving the sum of Twenty-five thousand (\$25,000) dollars; and in the event that any of such nephews or nieces shall have died before me, leaving lawful issue him or her surviving, then I give and bequeath a like sum of Twenty-five thousand (\$25,000) dollars to the surviving lawful issue of each nephew or niece so dying before me, the same to be distributed among such issue share and share alike, per stirpes and not per capita.

Fourth: All the rest, residue, and remainder of my estate, real, personal and mixed, wheresoever situate, of which I may die seized or possessed, or to which I may be entitled at the time of my decease, I give, devise and bequeath to my wife, Margaret Olivia Sage, to have and to hold the same to her, absolutely and forever.

Fifth: This provision for my wife is to be in lieu of all right of dower in my estate.

Sixth: I authorize and empower my executors hereinafter named, and the survivors and survivor of them, to sell and dispose of all or any of the real estate of which I shall die seized or possessed, at public or private sale, at such times and on such terms and conditions as they, the survivors or survivor of them, shall deem meet or proper, and to execute, acknowledge, and deliver all proper writings, deeds of conveyance and transfers therefor.

Seventh: Should any of the gifts and bequests made by me in the second and third paragraphs of this my will lapse or fail for any reason, I direct that the bequests so lapsing or failing shall go to and form part of my residuary estate, and be disposed of under and in accordance with the provisions of the fourth paragraph of this my will.

Eighth: I nominate, constitute and appoint my wife, Margaret Olivia Sage; Dr. John P. Munn, of the City of New York; Almon Goodwin of said City, and Charles W. Osborne long my confidential and trusted assistant, the survivors and survivor of them, executrix and executors of this my last Will and Testament.

In the event of the death, refusal or inability to act of said Charles W. Osborne, I hereby nominate and appoint Edward C. Osborn, also for some years past in my employment, as Executor in his place and stead. I further direct that none of the persons above named as executors shall be required to give any bond or security for the proper discharge of their duties.

Ninth: I hereby authorize and direct my said executors to rent a suitable office for the transaction of the business of my estate, and to employ and pay out of the funds of my estate all the clerks and book-keepers that may be necessary for the proper care and management thereof.

Tenth: I hereby revoke all former or other wills and testamentary dispositions by me at any time heretofore made.

Eleventh: Should any of the beneficiaries, under this my will, other than my said wife, object to the probate thereof, or in any wise, directly or indirectly, contest or aid in contesting the same, or any of the provisions thereof, or the distribution of my estate thereunder, then and in that event I annul any bequest herein made to such beneficiary, and it is my will that such beneficiary shall be absolutely barred and cut off from any share in my estate.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed my seal at No. 2 Wall Street, New York City, Borough of Manhattan, this eleventh day of February, 1901, in the presence of Edward Townsend and Richard W. Freedman, whom I have requested to become attesting witnesses hereto.

RUSSELL SAGE [SEAL]

The foregoing instrument was subscribed, sealed, published, and declared by Russell Sage as and for his last Will and Testament, in our presence and in the presence of each of us, and we, at the same time, at his request, in his presence and in the presence of each other, hereunto subscribe our names and residences as attesting witnesses this 11th day of February, 1901.

EDWARD TOWNSEND, 130 West 121st St., New York.
R. W. FREEDMAN, 32 West 123rd St., N. Y. City.

Form 76. (a) Bill of Lading (face)

BALTIMORE AND OHIO RAILROAD

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE

Shipper's No.
Agent's No.

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading.

At.....19.....
 From.....the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property, over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The rate of Freight from

to.....is in cents per 100 pounds.....If Special If Special

If 1st Class If 2d Class If 3d Class If 4th Class If 5th Class If 6th Class per.....per.....

(Mail Address—Not for purposes of Delivery)

Consigned to.....

Destination.....State of.....County of.....

Route.....

.....Car Initial.....Car No.....

No. of Packages	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	WEIGHT (Subject to Correction)	Class or Rate	Check Column	If charges are to be prepaid, write or stamp here, "To be Prepaid."
					Received \$..... to apply in prepayment of the charges on the property described herein.
					Agent or Cashier.
					Per..... (The signature here acknowledges only the amount prepaid.)
					Charges advanced
					\$.....

.....SHIPPER.....AGENT

Per.....Per.....

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

Form 76. (b) Bill of Lading (reverse)

CONDITIONS

SEC. 1. The carrier or party in possession of any of the property herein described shall be liable for any loss thereof or damage thereto, except as hereinafter provided.

No carrier or party in possession of any of the property herein described shall be liable for any loss thereof or damage thereto or delay caused by the act of God, the public enemy, quarantine, the authority of law, or the act or default of the shipper or owner, or for differences in the weights of grain, seed, or other commodities caused by natural shrinkage or discrepancies in elevator weights. For loss, damage, or delay caused by fire occurring after forty-eight hours (exclusive of legal holidays) after notice of the arrival of the property at destination or at port of export (if intended for export) has been duly sent or given, the carrier's liability shall be that of warehouseman only. Except in case of negligence of the carrier or party in possession (and the burden to prove freedom from such negligence shall be on the carrier or party in possession), the carrier or party in possession shall not be liable for loss, damage, or delay occurring while the property is stopped and held in transit upon request of the shipper, owner, or party entitled to make such request; or resulting from a defect or vice in the property or from riots or strikes. When in accordance with general custom, on account of the nature of the property, or when at the request of the shipper the property is transported in open cars, the carrier or party in possession (except in case of loss or damage by fire, in which case the liability shall be the same as though the property had been carried in closed cars) shall be liable only for negligence, and the burden to prove freedom from such negligence shall be on the carrier or party in possession.

SEC. 2. In issuing this bill of lading this company agrees to transport only over its own line, and except as otherwise provided by law acts only as agent with respect to the portion of the route beyond its own line.

No carrier shall be liable for loss, damage, or injury not occurring on its own road or its portion of the through route, nor after said property has been delivered to the next carrier, except as such liability is or may be imposed by law, but nothing contained in this bill of lading shall be deemed to exempt the initial carrier from any such liability so imposed.

SEC. 3. No carrier is bound to transport said property by any particular train or vessel, or in time for any particular market or otherwise than with reasonable dispatch, unless by specific agreement indorsed hereon. Every carrier shall have the right in case of physical necessity to forward said property by any railroad or route between the point of shipment and the point of destination; but if such diversion shall be from a rail to a water route the liability of the carrier shall be the same as though the entire carriage were by rail.

The amount of any loss or damage for which any carrier is liable shall be computed on the basis of the value of the property at the place and time of shipment under this bill of lading, including the freight charges, if paid.

Except where the loss, damage, or injury complained of is due to delay or damage while being loaded or unloaded, or damaged in transit by carelessness or negligence, as conditions precedent to recovery, claims must be made in writing to the originating or delivering carrier within six months after delivery of the property (or, in case of export traffic, within nine months after delivery at port of export) or, in case of failure to make delivery, then within six months (or nine months in case of export traffic) after a reasonable time for delivery has elapsed; and suits for loss, damage or delay shall be instituted only within two years and one day after delivery of the property, or, in case of failure to make delivery then within two years and one day after a reasonable time for delivery has elapsed.

Any carrier or party liable on account of loss or damage to any of said property shall have the full benefit of any insurance that may have been effected upon or on account of said property, so far as this shall not avoid the policies or contracts of insurance.

SEC. 4. All property shall be subject to necessary cooperage and baling at owner's cost. Each carrier over whose route cotton is to be transported hereunder shall have the privilege, at its own cost and risk, of compressing the same for greater convenience in handling or forwarding, and shall not be held responsible for deviation or unavoidable delays in procuring such compression. Grain in bulk consigned to a point where there is a railroad, public, or licensed elevator, may (unless otherwise expressly noted herein, and then if it is not promptly unloaded) be there delivered and placed with other grain of the same kind and grade without respect to ownership, and if so delivered shall be subject to a lien for elevator charges in addition to all other charges hereunder.

SEC. 5. Property not removed by the party entitled to receive it within forty-eight hours (exclusive of legal holidays) after notice of its arrival has been duly sent or given may be kept in car, depot, or place of delivery of the carrier, or warehouse, subject to a reasonable charge for storage and to carrier's responsibility as warehouseman only, or may be, at the option of the carrier, removed to and stored in a public or licensed warehouse at the cost of the owner and there held at the owner's risk and without liability on the part of the carrier, and subject to a lien for all freight and other lawful charges, including a reasonable charge for storage.

The carrier may make a reasonable charge for the detention of any vessel or car, or for the use of tracks after the car has been held forty-eight hours (exclusive of legal holidays) for loading or unloading, and may add such charge to all other charges hereunder and hold such property subject to a lien therefor. Nothing in this section shall be construed as lessening the time allowed by law or as setting aside any local rule affecting car service or storage.

Property destined to or taken from a station, wharf, or landing at which there is no regularly appointed agent shall be entirely at risk of owner after unloaded from cars or vessels or until loaded into cars or vessels, and when received from or delivered on private or other sidings, wharves, or landings shall be at owner's risk until the cars are attached to and after they are detached from trains.

SEC. 6. No carrier will carry or be liable in any way for any documents, specie, or for any articles of extraordinary value not specifically rated in the published classifications or tariffs, unless a special agreement to do so and a stipulated value of the articles are indorsed hereon.

Sec. 7. Every party, whether principal or agent, shipping explosive or dangerous goods, without previous full written disclosure to the carrier of their nature, shall be liable for all loss or damage caused thereby, and such goods may be warehoused at owner's risk and expense or destroyed without compensation.

Sec. 8. The owner or consignee shall pay the freight and all other lawful charges accruing on said property, and, if required, shall pay the same before delivery. If upon inspection it is ascertained that the articles shipped are not those described in this bill of lading, the freight charges must be paid upon the articles actually shipped.

Sec. 9. Except in case of diversion from rail to water route, which is provided for in section 3 hereof, if all or any part of said property is carried by water over any part of said route, such water carriage shall be performed subject to the liabilities, limitations, and exemptions provided by statute and to the conditions contained in this bill of lading not inconsistent with such statutes or this section, and subject also to the condition that no carrier or party in possession shall be liable for any loss or damage resulting from the perils of the lakes, sea, or other waters; or from explosion, bursting of boilers, breakage of shafts or any latent defect in hull, machinery, or appurtenances; or from collision, stranding, or other accidents of navigation, or from prolongation of the voyage. And any vessel carrying any or all of the property herein described shall have the liberty to call at intermediate ports, to tow and be towed, and assist vessels in distress, and to deviate for the purpose of saving life or property.

The term "water carriage" in this section shall not be construed as including lighterage across rivers or in lake or other harbors and the liability for such lighterage shall be governed by the other sections of this instrument.

If the property is being carried under a tariff which provides that any carrier or carriers party thereto shall be liable for loss from perils of the sea then as to such carrier or carriers the provisions of this section shall be modified in accordance with the provisions of the tariff, which shall be treated as incorporated into the conditions of this bill of lading.

Sec. 10. Any alteration, addition or erasure in this bill of lading which shall be made without an indorsement thereof hereon, signed by the agent of the carrier issuing this bill of lading, shall be without effect, and this bill of lading shall be enforceable according to its original tenor.

Form 77. Guaranty Contract

GUARANTY

THE UNDERSIGNED, for and in consideration of one dollar in hand paid by George T. Larkins of Dallas, Texas, hereinafter called the Purchaser, the receipt whereof is hereby acknowledged, and the further consideration of enabling the said Purchaser to buy goods, wares, and merchandise on credit from Green & Company, Minneapolis, Minnesota, hereinafter called the Vendor, hereby jointly and severally guarantee the payment of, and bind ourselves personally, our heirs, executors, and administrators to said

Vendor, for the payment of all debts of every kind, name, and nature, including interest which the said Purchaser is now owing, or may hereafter owe, the said Vendor, whether due or not due, provided, however, that the liability of the undersigned hereunder shall not be for a greater amount than Five Thousand Dollars (\$5,000) and interest.

The undersigned agree that the debts, payment of which is hereby guaranteed, may, by note or otherwise, be changed in form, extended, or renewed at the option of said Vendor without notice to the undersigned, and the liability of the undersigned shall not be affected by such change, extension, or renewal; that this guaranty shall remain in full force and effect up to such date as the said Vendor shall have received at its office in Minneapolis, Minnesota, written notice from the undersigned to cease selling the said Purchaser on the strength of their guaranty; that the Vendor may at its option extend credit to the Purchaser to an amount in excess of the limit to this guaranty without impairing our joint and several liabilities hereunder; that should said Vendor commence suit against the Purchaser, or against the undersigned on this guaranty, to pay a reasonable attorney fee, and that the same may be taxed against the undersigned as part of the costs in said action.

The undersigned hereby waives notice from the Vendor of the amount of indebtedness, default in payment, or of the acceptance of this guaranty.

IN WITNESS WHEREOF, we have hereunto subscribed our names at St. Louis, Missouri, on this 2d day of February, A.D., 1920.

R. L. SANDERS
CHARLES D. BATES
LEE D. NORRIS

Witnesses:

HAROLD SMITH
JAMES B. DONNELLY

Form 78. Guaranty Contract by Letter

TODD & Co.,
Terre Haute, Indiana.

GENTLEMEN:—

For value received, and in consideration that you shall hereafter give credit to Thomas J. Allen from time to time in the course of his business as retail grocer in Terre Haute, Indiana, I, James S. Martin, do hereby undertake and guarantee the payment of any sums for which said Thomas J. Allen may become indebted to you, not to exceed the sum of Two Thousand Dollars (\$2,000).

This instrument is intended as a general, unlimited, continuing guaranty, whereby I undertake and guarantee as a primary liability upon me, any and all balance of indebtedness due you from Thomas J. Allen or that may hereafter become due, and any contract entered into by Thomas J. Allen and Todd & Co., creating or extending such indebtedness, or changing the form thereof, shall be binding upon me, without notice, and render me liable under this guaranty.

JAMES S. MARTIN

Chicago, Illinois,
January 10, 1920

Form 79. Agreement for Arbitration

AGREEMENT FOR ARBITRATION

This Agreement made this 9th day of February, 1920, between J. S. Thompson and Arnold Baker, both of Brooklyn, New York.

WITNESSETH, that whereas there is now between the said parties a controversy in relation to

(State fully here the matter in dispute.)

Now, therefore, the said parties do hereby submit the said difference to the arbitration of Clifford Wilson, James Emerson, and Henry Harland, or any two of them, and they do mutually covenant and agree with each other that the award to be made by the said arbitrators shall be obeyed and observed by each of them.

It is understood and agreed that the said award shall be made in writing, under the hands of the said arbitrators, or any two of them, and shall be delivered to said parties on or before the 15th day of the present month.

It is further agreed that said arbitrators, or any two of them, may at their discretion award the expenses and cost of this reference and assess the same on either or both of the said parties.

IN WITNESS WHEREOF, the parties hereto have, on the day and date aforesaid, hereunto affixed their signatures and seals in the City of Brooklyn.

Witness:
WILLIAM T. JOHNSON

J. S. THOMPSON [L.S.]
ARNOLD BAKER [L.S.]

APPENDIX

APPENDIX A
CHART SHOWING JURISDICTION OF STATE COURTS

STATE.	1. COURT OF LAST RESORT. APPELLATE JURISDICTION.	2. COURT OF INTER- MEDIATE APPELLATE JURISDICTION.	3. COURT OF GENERAL ORIGINAL COMMON LAW JURISDICTION.	4. COURT OF GENERAL ORIGINAL EQUITY JURISDICTION.	5. COURT OF ORIGINAL PROBATE JURISDICTION.
Massachusetts.....	Supreme Judicial	Appellate Division of the Superior Court	Superior Court	Superior Court	Probate Court
New York.....	Court of Appeals	Appellate Division of the Supreme Court	Supreme Court	Supreme Court	Surrogate's Court
New Jersey.....	Court of Errors and Appeals	Supreme Court Circuit Court	Court of Common Pleas	Court of Chancery	Prerogative Court, Orphan's Court
Pennsylvania.....	Supreme Court	Appellate Division of the Superior Court and Court of Com- mon Pleas	Court of Common Pleas	Superior Court	Orphan's Court
Maryland.....	Court of Appeals	Appellate Division of the Circuit Court	Circuit Court	Circuit Court	Orphan's Court
Ohio.....	Supreme Court	Appellate Division of the Superior and Circuit Courts	Circuit Court	Superior Court	County Court
Illinois.....	Supreme Court	Appellate Division of the Superior and Circuit Courts	Circuit Court	Superior Court	County Court
California.....	Supreme Court	Appellate Division of the Superior Court	Superior Court	Superior Court	Superior Court

In practically all the states there are still lower courts, as justices, magistrates, municipal, special sessions, recorders, and quarter-session courts for the trial of minor cases, both civil and criminal.

APPENDIX B

A PROFESSIONAL LAW LIBRARY

Someone qualified to speak has said that the lawyer's art consists in knowing where to find the law. The means for doing this are to be found in the law library. A lawyer's library is of vital importance and costs much to start and much to keep up from year to year.

A good law library would have the statutes and state reports of the state in which it is situated and also the reports of the United States Supreme Court from the beginning. It would also have digests of the state reports and of the United States Supreme Court reports. A digest is a work in which legal subjects are alphabetically arranged and after each heading is a brief résumé of the court decisions bearing upon the subject. The state and the Supreme Court reports would be of little use without the aid of digests. A lawyer's library would also have one of the great legal encyclopedias already mentioned.

Then there should be a limited number of the better text-books. Some text-books by reason of the learning and sound judgment of the author rank nearly as high as court decisions, and a lawyer's library should contain these text-books. If he could afford it, he would have the reports of some of the other states as well as those of his own. The courts of last resort of New York and Massachusetts have perhaps the highest reputation of any of the state courts and are more often cited in argument. Such a library as this would be useful only to a trained lawyer, and to look up a legal point in such a library would require professional ability.

Young lawyers generally try to get desk-room with older

practitioners, who already have libraries; older lawyers combine into professional firms so as to make the expense of books and office accommodations less onerous. Most lawyers depend, too, on the large professional libraries that are to be found in almost every city of any size.

Citations

A few words on how to look up a case reference will be of value to the reader. In practically every case given the plaintiff's name appears first. For example, "Swim v. Wilson, 13 Cal. 126," means Swim, plaintiff against (v=versus) Wilson, defendant, reported in Volume 13 of the California Supreme Court Reports, at page 126. "Whitney v. Martine, 88 N. Y. 535," means Whitney, plaintiff against Martine, defendant, reported in Volume 88 of the reports of the New York Court of Appeals at page 535. As a general rule the mere abbreviation of a state name means the reports of the highest court of the state. In most states this is called the Supreme Court, but in New York and a few others, the Court of Appeals is the highest court in the state. (See chart, Appendix A.)

The letters "U. S." mean the reports of the Supreme Court of the United States, while "Fed. Rep." (Federal Reporter) refers to a collection of the most noteworthy reports from the United States Circuit and District Courts.

In the United States and in Canada, volumes of reports were sometimes put out under the name of the court reporter. It is the older volumes of the United States and English reports that are designated in this manner. So "68 Wall. 178" would be Volume 68 of the U. S. Supreme Court Reports reported by Wallace, page 178. Some other well-known reporters of the U. S. Supreme Court are Wheat. (Wheaton), How. (Howard), and Cranch.

Hun is a very well-known reporter of some of the lower

courts in New York State, while Allen is a reporter of cases from the Massachusetts Supreme Court. Where there are two men with the same name among the court reporters, one of them will have after his name the state or province in which he reports, as: "Allen (N. B.)," meaning Allen of New Brunswick.

Some of the reporters of Massachusetts cases are Allen, Cushing, Gray, Metcalf, Quincy, Pickering, Tyng, and Williams. Among those in New York are Abbott, Anthon, Barbour, Daly, Denio, Lansing and Hun.

In England the House of Lords is the supreme and final court of appeal. Apart from this are the Court of Appeals and the High Court of Justice. This last court consists of three divisions, (1) the Chancery, (2) The Queen's Bench, and (3) the Probate, Divorce and Admiralty Division. Then each county has its court and there are numerous courts of inferior jurisdiction. So, for example, a reference to "Moss v. Moss, (1897) Pro. Div. 263," means Moss, plaintiff against Moss, defendant, found in the reports of the Probate Division for the year 1897 at page 263. There are also reports of decisions of judges, as for example "1 Ld. Raymond 264," which means Volume 1 of the Decisions of Lord Raymond on cases from King's Bench Division and Common Pleas (these courts are now extinct), at page 264.

Only by practice can a person know, when a case reference is given, what court decision the author cites. It is no small part of a lawyer's training to know where to find the things he wants.

There are forty-eight states and not only are the decisions of the higher courts reported, but in some of the states the decisions of many of the lower courts are published. Then there are also the numerous volumes of reports of the decisions of the Supreme Court of the United States, of the circuit courts, and of the district courts.

The yearly output of all of these various reports would make a large library in itself, and it must be remembered that these reports have been recorded in this country almost since the time of the making of the Constitution. On this account, to keep up a serviceable law library is continuously costly, and in cities where rents are high the space occupied is no small expense. In charging clients all of this outlay must be calculated.

APPENDIX C

GLOSSARY

- ABDUCTION.** The taking or carrying away of a man's wife, child, or maid.
- ABET.** To aid and encourage another to commit a crime.
- ABJUDICATE.** To transfer or to give away by judgment.
- ABSCOND.** To leave one's home or to conceal oneself to avoid legal detection.
- ABSTRACT OF TITLE.** A summary of all deeds, wills, and legal proceedings, giving the names of the parties, the description of the land, and the agreement.
- ACQUITTAL.** A discharge and release from a legal action.
- ACT OF GOD.** An inevitable occurrence, such as flood, tempests, death, etc.
- ADJUDICATION.** A decision or judgment.
- ADMINISTRATOR.** One appointed by the probate court where a person dies intestate to take charge of the decedent's property.
- ADOLESCENCE.** The period between 12 and 21 in females and 14 and 21 in males.
- ADVERSE POSSESSION.** Possession in opposition or denial of the right of another, as the adverse holding of land or property.
- AFFINITY.** The relationship from marriage between the wife and relatives of her husband and vice versa.
- AFFREIGHTMENT.** The contract by which a ship is to carry goods.
- ALIENATE.** To transfer property.
- ALIMONY.** The money paid by a husband to a wife for her support either during a suit for separation or after the separation or divorce has been granted.
- ALLONGE.** A piece of paper added to a negotiable instrument whereon additional signatures may be added.
- AMALGAMATION.** The combining of two corporations into one.
- ARSON.** The wilful and malicious burning of a building.
- ASSESS.** To ascertain the value of a man's property for taxation.
- ASSIGN.** To transfer property and rights in action (chose in action).
- ATTESTATION.** The evidence by witness as to the execution of any instrument.
- ATTORNEY-IN-FACT.** An agent who acts under sealed authority.

GLOSSARY

- AVERAGE.** A contribution or adjustment made by merchants for goods that have been thrown overboard or lost. It is either general or particular.
- BAGGAGE.** Clothing and such other articles as are necessary for the comfort and convenience of a passenger.
- BAILMENT.** A contract arising from the delivery of goods by one person to another for some specific purpose and to be later returned.
- BANKRUPT.** One who is unable to meet his bills as they fall due and has been adjudged a bankrupt by a court of competent jurisdiction.
- BARTER.** A contract to exchange goods for goods instead of for money.
- BENEFICIARY.** One who has the profit, benefit, or advantage arising from a contract or an estate; also a cestui que trust.
- BEQUEATH.** To make a gift of personal property by will.
- BIGAMY.** The offense of having two wives or two husbands at one time.
- BILATERAL CONTRACT.** A contract where both the contracting parties are bound to fulfil obligations reciprocally towards each other.
- BILL OF EXCHANGE.** An unconditional order in writing by one person to another and signed by the giver, charging the person to whom it is addressed or given, to pay on demand or at some future time a certain sum to a specified person.
- BILL OF LADING.** A receipt, usually in duplicate or triplicate, of goods received, given by the carrier to the shipper.
- BONA FIDE.** In good faith; honestly.
- BOTTOMRY.** A species of mortgage on a ship, by which the ship and the cargo are pledged as security for the repayment of a sum of money. If the ship is totally lost the lender loses his money; but if the ship returns safely he recovers his principal together with the interest agreed on, which is usually at a high rate corresponding to the risk. The contract may be by a bottomry bill, or bond.
- BOYCOTT.** To combine to abstain from or to prevent social or business relations with a trades person, landlord, etc.
- BREACH OF COVENANT.** A violation of some agreement in a deed.
- BROKERAGE.** The compensation of a broker; the occupation of a broker.
- BURGLARY.** A breaking or entering of a dwelling in the night-time with the intent to commit a felony.

- CAPACITY.** The legal ability to sue and be sued; to contract, etc.
- CAPITAL.** The principal invested in a business.
- CAPITAL STOCK.** A sum divided into shares, which is raised by subscription of the members of a corporation and upon which calls and dividends are based.
- CAPITATION TAX.** A tax paid by everyone in a community; a poll tax.
- CARGO.** The entire load of a vessel excluding passengers.
- CAUSA MORTIS.** A gift made in prospect of death, and revocable any time before death.
- CAVEAT EMPTOR.** Let the buyer beware; *caveat venditor*, let the seller beware; *caveat viator*, let the traveler beware.
- CEDE.** To assign or transfer.
- CERTIFIED CHECK.** A check stamped by a bank signifying that the bank assumes the obligation originally taken by the drawer of the check and promises to pay the sum called for in the check.
- CESTUI QUE TRUST.** The person who has an equitable or beneficial right to property; a beneficiary.
- CHANCERY.** Equity.
- CHARTER PARTY.** A written contract by which the owner of a ship hires it out to another party for a specified time.
- CHATTELS.** Personal property and real property, i.e., leases and interests in land which are less than a freehold.
- CHOSE-IN-ACTION.** The right to a debt, or sum of money recoverable in a suit at law.
- CITATION.** A summons to appear before a court; used particularly in the probate court.
- CIVIL.** That which pertains to a city or state; man in relation to his fellow men.
- CODICIL.** An additional clause added to a will after the will has been signed, sealed, and witnessed. It must be signed and witnessed as formally as the will.
- COLLATERAL SECURITY.** Property transferred by the owner to another to secure the carrying out of an obligation.
- COMPANY.** A combination of individuals for the purpose of carrying on a business or enterprise, whether incorporated or not.
- COMPOS MENTIS.** Sound of mind or capable of doing acts.
- COMPOSITION.** An agreement between debtor and creditor that the creditor will take a certain amount in full settlement of the whole debt.

- CONDONATION.** The pardoning of an offense against the marriage relation by which it is prevented from being made a cause of action at a later period.
- CONFLICT OF LAWS.** The difference and variations of laws as between states or countries in regard to the subject matter of some case.
- CONNIVANCE.** Aiding in a crime, the knowledge of a crime. Used particularly in domestic relations, the consent by a husband or a wife to the adultery of the other in order to procure a divorce.
- CONSANGUINITY.** The relationship of persons descended from a common ancestor.
- CONSIGN.** The sending of goods to a buyer or to an agent to sell. The sender is the consignor, the receiver the consignee, and the goods the consignment.
- CONSUMMATION.** The completion or finish of some act.
- CONTINGENT.** That which depends upon some happening or occurrence; doubtful, conditional.
- CONTUMACY.** The refusal to swear in court when ordered to do so.
- CONVERSION.** The wrongful taking or using of property belonging to another.
- CORPORATION.** An artificial person or group of persons combined by legal right for the purpose of carrying on a business indefinitely.
- CORPOREAL.** A material thing.
- CURTESY.** The husband's estate in the wife's property after her death.
- DE BONIS NON.** An administrator *de bonis non* is one who takes charge of any property not executed or settled by a previous administrator whose place he is taking.
- DEAD FREIGHT.** The part left empty in a ship chartered by a person who has cargo enough for only a part of the ship.
- DEBENTURE.** A sealed instrument given by a company as a security for a loan.
- DECREE.** The order made by a court of equity.
- DELIVERY.** The act of transferring possession from one to another.
- DEMURRAGE.** The act of detaining a ship; an allowance made by the freighter to the owners of a ship for detaining the ship in port longer than the period agreed upon.
- DERIVATIVE CONVEYANCE.** A secondary deed to confirm or alter a former deed.

- DESCENT.** A method of acquiring real property. The vesting of title to the real property of an intestate in his heirs.
- DEVIATION.** The act by which a ship departs from her usual course. Such an act will invalidate the insurance.
- DEVISE.** Usually a gift of real property by will; also used sometimes for personal property.
- DISCHARGE.** The order of a court which will release a bankrupt from his debts.
- DISCLAIMER.** A formal instrument made by a patentee renouncing part of his patent.
- DIVORCE.** A severing of the marriage tie. It may be absolute, permitting the parties to marry; or a separation, which does not.
- DOMESTIC.** Relating to the family and those who live with or serve the family.
- DONEE.** One who receives a gift.
- DONOR.** One who gives a gift.
- DOWER.** The right of a wife after her husband's death in one-third of all the lands owned by her husband during the marriage state.
- DURESS.** The forcing of a person by words or acts to perform some act.
- EAR WITNESS.** A witness who testifies as to what he himself heard.
- EASEMENT.** A right of way over another's land, air, light, water, and support, given by the owner of that land.
- EJECTMENT.** A putting out of possession of a tenant by a landlord or the voluntary leaving of the property by a tenant through some act or omission on the part of the landlord or janitor.
- EMBLEMENTS.** Growing crops. It applies only to crops raised each year or those cared for by a tenant.
- EMINENT DOMAIN.** A right which the government has over the real property of individuals to take it for some public use, paying for it reasonable value.
- ESCROW.** A sealed instrument given by one party to another to deliver to a third person when that third person performs a certain act or acts. It is not in force until delivered to that third party.
- ESTOPPEL.** The act of stopping a person from denying something which he has already affirmed.
- EXECUTED CONTRACT.** One which has been completed by the actions of both parties.

- EXECUTOR.** One appointed by the terms of a will to carry out the provisions of that will.
- EXECUTORY.** A contract which has not yet been completed or which requires something to be done or to happen before it will be executed.
- EXTINGUISHMENT.** The destruction of a right by satisfaction or by the acquisition of another right which is greater.
- EXTRADITION.** The surrender of a criminal by one state to another or by one country to another for the purpose of trying and punishing him in the place in which he committed the crime.
- EYE-WITNESS.** One giving evidence as to something which he has himself seen.
- FACSIMILE.** An exact copy.
- FACTOR.** An agent employed to sell merchandise, delivered to him by the principal for a compensation called a "factorage" or "commission."
- FALSE PRETENCES.** A statement which is not true, made for the purpose of selling goods, obtaining money, etc.
- FEE.** An estate of inheritance. It is divided into three kinds: (1) fee simple, an absolute estate of inheritance; (2) qualified or limited estate, and (3) fee tail, an inherited estate limited to one person and the heirs of his body.
- FELONY.** Any crime greater than a misdemeanor which may be punishable by death or penal servitude.
- FIXTURE.** An article of personal property, which through annexation to land or building becomes real property.
- FLOTSAM or FLOATSAM.** Goods thrown overboard, which float.
- FORECLOSURE.** An equitable proceeding by which a mortgagor is banned from the redemption of his property and thereby loses it forever.
- FORGERY.** The false making or alteration of an instrument, which purports on the face of it to be good for the purposes for which it was created; the false or unauthorized signature of a document with a design to defraud.
- FRANCHISE.** A privilege or liberty given by the government to certain individuals.
- FRANK.** Free; the privilege given by the government to senators and representatives and certain other individuals of sending mail without postage.

- FREIGHT.** Goods in the process of being transported from one place to another.
- FRUCTUS INDUSTRIALES.** Crops grown through the labors of man.
Fructus naturales, crops growing of themselves from year to year.
- GARNISHEE.** A person warned, at the suit of a creditor plaintiff, not to pay money which he owes to, or to deliver over property which belongs to, the defendant, because he is indebted to the plaintiff.
- GENERAL AVERAGE.** Where a loss has been incurred for the benefit of all on board, the owners of the ship and all having cargo thereon contribute proportionately toward making good the loss.
- GOOD-WILL.** The benefit acquired by a business beyond the value of the stock employed in it, in consequence of its having a body of regular customers and a general reputation.
- GRAND LARCENY.** In New York State grand larceny of the first degree constitutes the taking of property of over \$500 at any time; second degree, the taking of property of the value of more than \$50 and less than \$500; petty larceny, the taking of anything less than \$50. If the property is taken from the person of another in the night-time, no matter what the value taken, the crime is grand larceny of the first degree. While if it be taken in the daytime the crime will be second degree no matter what the value of the goods.
- GRATUITOUS.** Without consideration.
- GROSS AVERAGE.** That which falls on a ship, freight, and cargo as distinguished from particular average.
- GUARANTY OR GUARANTEE.** A promise to another that the promisor will be responsible for the payment of a certain sum if the other cannot collect it from the debtor.
- GUARDIAN.** One controlling the person and property of another who is incapable of managing his affairs for himself, as an infant or an insane person.
- HABEAS CORPUS.** A writ which orders a person detaining another to bring that person into court.
- HEARSAY EVIDENCE.** The evidence of a witness which he obtained from another, in contradistinction to ear and eye witnesses.
- HEIR.** One who succeeds by descent to an estate in land or would have succeeded had his ancestor died intestate.

- HEREDITAMENTS.** Every sort of inheritable property, such as corporeal, incorporeal, real, personal, and mixed.
- HOLDING OVER.** The keeping of possession of property by a tenant after the expiration of the lease.
- HOLOGRAPH.** A will or other instrument written entirely in the handwriting of the maker of the will.
- HOMICIDE.** The killing of one person by another. It is either excusable as where committed by accident, or justifiable, as where committed in full knowledge of the act but under such circumstances that it became necessary to kill the other; or felonious, where it is committed knowingly and wilfully with the intent and desire to kill.
- HUSH-MONEY.** Money given as a bribe to keep another from giving some certain information.
- IDEM.** The same.
- ILLICIT.** Unlawful.
- ILLUSORY.** Having a false appearance, deceptive.
- IMMATERIAL EVIDENCE.** Evidence which does not apply to the point at issue.
- IMPEACH.** To charge with misconduct an official of the government.
- INALIENABLE.** That which cannot be transferred.
- INCENDIARY.** A person who wilfully sets fire to a building.
- INCORPOREAL.** That which is not material; intangible; unable to be handled, seen, or heard; invisible.
- INCUMBRANCE.** Any liability attached to property, as a judgment, mortgage, etc.
- INDENTURE.** A deed between two or more parties.
- INGRESS.** The right of the lessee to enter, to go upon the land which he has leased.
- INJUNCTION.** An order from a court forbidding the performance of a certain act or acts.
- INQUEST.** An investigation by the coroner as to the cause of the death of a person.
- INSURANCE.** The act of providing against a possible loss, by entering into a contract with another, who is willing to make good such a loss if it occurs.
- INTERPOLATE.** To insert words in a completed document.
- INTERROGATORIES.** Written questions by one party addressed to another before the trial of a case and which questions must be answered in writing.

- JETSAM.** Jetsam is where goods are cast into the sea, and there sink and remain under water.
- JETTISON.** The throwing of part of a cargo overboard in order to lighten a ship.
- JOINT TENANTS.** The owning by two or more persons of a piece of property; upon the death of one the share owned by him passes to the survivors.
- JOINT-STOCK COMPANY.** A sort of partnership granted by some of our states and England, which has some of the powers of a corporation.
- JUDGMENT DEBTOR.** One against whom a judgment of the court ordering him to pay his debt is unsatisfied.
- JURISDICTION.** The district over which the right of a court exists to hear a certain case.
- JUSTICE OF THE PEACE.** A justice of the peace is a judicial officer of an inferior local court with jurisdiction in civil cases where the amounts involved are small and in criminal cases of misdemeanors and petty crimes. To become a justice of the peace a person must be a citizen of the United States and of the state in which he is elected or appointed. A minor is not qualified to hold the office. Women have been held not eligible to the office. He has no jurisdiction where the maximum penalty for the offense alleged is greater than such officer is authorized to impose. The test is the maximum penalty which may be imposed. If no limit is fixed to the penalty, a justice will not have jurisdiction to try the offense. A justice may not act where he has an interest in the suit, according to the old maxim, "No man can be a judge in his own cause."
- KEELAGE.** Money paid by vessels remaining in a harbor.
- KIN OR KINDRED.** Relation by blood, or consanguinity.
- KLEPTOMANIA.** The desire to steal; a form of insanity.
- LAST RESORT.** A court from which there can be no appeal.
- LAW-MERCHANT.** A part of the law of the land as regards commercial usages and the transactions of merchants, mariners, etc.
- LEASE.** A conveyance of the right of possession of certain property for a certain period.
- LEGACY.** A gift of personal property made by will.
- LETTERS TESTAMENTARY.** An instrument given by a court to a person named as executor in a will to proceed with administration of the estate.

- LEX LOCI.** The law of the place where a contract is made or an act performed.
- LIBEL.** Defamatory writing. Any sort of published matter that will hurt or degrade the person about whom it is written, assuming of course that what is written is not true. See "Slander."
- LIEN.** The right of a person to keep what is in his possession belonging to another until that other pays what is due.
- LINEAL.** In a direct line.
- LIQUIDATED DAMAGES.** Damages which parties to a contract agree shall be paid in case of a breach of contract.
- LIS PENDENS.** A suit or action that is pending.
- LITIGANT.** A person engaged in a lawsuit.
- LOCUS SIGILLI (L.S.).** The place of the seal.
- MALUM IN SE.** Wrong because immoral.
- MALUM PROHIBITUM.** Wrong because forbidden by statute.
- MANDAMUS.** We command. An order by court to some person, sole or corporate, to do some act which is specified in the order.
- MANDATE.** A judicial order.
- MANSLAUGHTER.** A killing of another without intent, or with intent but on the spur of the moment through some great provocation given by the deceased.
- MERCANTILE LAW.** The law which deals with matters pertaining to trade affairs.
- METES AND BOUNDS.** The boundary lines of land, with distances, terminal points, and angles.
- MITIGATION.** The lessening of damages or of punishment.
- MORGANATIC MARRIAGE.** The lawful marriage of a man of royal birth with a woman who is not, upon the condition that the one of inferior birth will not partake of the titles, dignity, or arms of the husband.
- MURDER.** The wilful killing of another.
- MUTUAL TESTAMENT.** Wills made by two persons, each leaving his property to the other if that other survives.
- NEAT CATTLE.** Bovine cattle (oxen and heifers) collectively.
- NEXT OF KIN.** "Those related by blood who would take personal estate of one who dies intestate" (Joseph's Surrogate Practice, page 96). First, children, and then descendants; second, father; third, mother and brothers and sisters; and fourth, collateral relatives.
- NIGHT.** The time between sunset and sunrise.

NOLENS VOLENS. Willing or unwilling.

NOMINAL DAMAGES. The smallest degree of damages awarded, six cents.

NON COMPOS MENTIS. Not of sound mind.

NOTARY PUBLIC. An officer whose function is to attest and certify by his hand and official seal various instruments, in order to give to them authenticity in other jurisdictions; to take acknowledgments and certify the same, and to perform other official acts, the power to do which is conferred by law. In order to become a notary public, a person must be a citizen of the United States. Minors are eligible, unless barred by constitutional or statutory provision. Women are eligible in many states, among them New York and New Jersey. A notary is empowered to administer oaths, take affidavits, take depositions, and the acknowledgment of creditors in bankruptcy proceedings.

NUISANCE. Something offensive; annoying.

NUNCUPATIVE WILL. A will made by word of mouth before someone else and afterwards written out.

OBITER DICTUM. An opinion of a judge and so not of as great weight as a judgment rendered.

OLOGRAPH. An instrument written entirely in the hand of the one signing it.

PENDENTE LITE. While the suit is pending.

PER AUTRE VIE. For another's life.

PERJURY. A false statement made while under oath.

POLYGAMY. A plurality of wives.

POWER OF ATTORNEY. A formal sealed authority to an agent.

PRIMA FACIE. Evidence which if not refuted or disproved will prevail.

PRIMAGE. The usual duty paid by a consignee to the master and sailors of a ship or vessel.

PROSECUTOR. One bringing a suit against another in the name of the government.

PUFFER. One who under an arrangement with an auctioneer attends the auction and bids in order to raise the prices.

QUASH. To discharge an action.

QUASI. Like; as if; almost.

QUORUM. The minimum of persons needed to be present at a meeting in order to conduct business or elections, etc.

REBATE. A discount or reduction of the amount of a payment in consideration of its being made before it falls due.

RECEIVER. A person appointed by a court to take into his custody, control, and management, the property or funds of another pending judicial action concerning them. He is an officer of the court, represents it, and any interference with his work will be punished as contempt.

RECOGNIZANCE. An obligation of record, to do some particular act, as to pay a debt, or keep the peace, or to appear in court.

RECOURSE. The right by the holder of a note to look to the previous indorser to pay the amount set forth in the note.

RECOURPMENT. The right of a defendant to set up a claim for damages against the plaintiff at the same action, because of his violation of an obligation owing on the contract on which he sues, or for some failure of consideration.

REFEREE. A person to whom an issue or question of fact arising in a cause has been sent by order of a court for trial or examination.

RELEVANCY. The degree of connection of evidence to the point at issue.

REMAINDER. The portion or residue of an estate which will pass to the remainderman upon the termination of such particular estate.

REPLEVIN. An action to recover possession of property wrongfully taken.

RESIDUARY. Pertaining to the residue of an estate after settlement.

RESPONDENTIA. A loan of money with the payment of interest on goods on a ship. If the goods are lost the money will not be repaid.

REVERSION. The residue of an estate left after the granting of part of it to another by the grantor.

RIPARIAN OWNER. One who has rights to the banks of a river or waterway.

SS. *Scilicet* (*scire licet*); to wit; namely.

SEAL. An impression upon wax, paper, etc., in order to authenticate any document to which it is attached; or a metal die with which an imprint is made on the document.

SEQUESTRATION. A process of taking certain rents and personal property of a person in contempt of an order of a court.

- SLANDER.** A defamatory statement in the presence of one or more people about a third person either present or in some other place.
- SPECIALTY.** A written, sealed, and delivered instrument.
- SQUATTER.** One settling on the land of another without legal authority. Possession, undisturbed, for twenty years, by a squatter will give him the right of ownership even as against the former owner.
- SUBSIDIARY LAWS.** Laws of lesser importance, such as those issued by boards of health, building boards, school authorities, etc.
- TANGIBLE.** That which may be handled, seen, etc.
- TAX, POLL.** A tax levied on every person, whether a citizen or an alien, in every county to pay for schools.
- TENANCY IN COMMON.** A holding by two or more persons of a piece of property. Upon the death of one, the deceased's share goes to his heirs and not to the other tenants as in joint tenancy.
- TONNAGE.** The carrying capacity of a ship.
- TROVER.** An action against another for the wrongful detention of property.
- ULTRA VIRES.** Beyond the powers of; applied to the acts of directors of a corporation when beyond the power of the charter of that corporation.
- UNILATERAL CONTRACT.** A contract where only one promise is to be performed.
- UTTER.** To offer, publish; to attempt to pass counterfeit money or forged notes, etc.
- VENUE.** The place, the county where an action is done.
- VI ET ARMIS.** With force and arms. Used in writs of trespass.
- VOID.** Destitute of legal effect.
- VOIDABLE.** Not void unless made so by disaffirmance, or a decree of a court.
- WAIVE.** To give up; to forego a right.
- WARD.** An infant under the guardianship of a person other than its parents.
- WASTE.** The spoiling or destruction of real property by one capable of committing waste, such as a tenant for life or for years.

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